Export and Investment Growth
Ingenuity
Risk Management solutions
Financial Partnerships
[illegible]bility
Trade Finance Expertise

EXPORT DEVELOPMENT CORPORATION

1999

ANNUAL REPORT

1999 Performance Against Objectives

Strategic Objectives for 1999

Each year, management sets objectives reflecting EDC's mandate, the essence of which is to support Canadian companies engaged in international trade. In 1999, the objectives of serving more customers, supporting more business, and generating an adequate rate of return formed the cornerstone of EDC's [illegible]

Serve More Customers More and more companies are pursuing business internationally, and EDC is uniquely placed to assist them – and, in particular, small- and medium-sized enterprises (SMEs), which require programs tailored to meet their needs. • Increase the number of customers that benefit from EDC's support to 5,100 • Increase the number of SMEs served to 4,437 • Maintain customer satisfaction levels at current levels	• The number of customers benefiting directly or indirectly from EDC services grew by an impressive 16 per cent, from 4,479* customers to 5,182, exceeding the target of 5,100. • A total of 4,550 (88 per cent) of the customers supported were SMEs. This exceeded the target of 4,437.	• EDC achieved a customer satisfaction index of 80.4, an increase over the target (and 1998 result) of 79.8. Over 950 customers were interviewed and gave EDC top marks for service. This result demonstrates EDC's ongoing commitment to its customers in a world of ever-growing customer expectations.
Support More Business The demand for trade finance services has grown in the past few years, and EDC is increasingly partnering with Canadian companies in support of their international activities. This support is even more vital in developing countries where few alternatives exist. • Increase the volume of business supported by EDC to $37.0 billion • Increase support to Canadian companies pursuing business in developing countries • Develop relationships in key markets where the potential for additional business for Canadian companies is substantial	• EDC supported $40.1 billion in business in 1999, surpassing last year's results by 15 per cent and exceeding the target. • EDC supported $9.8 billion of business volume in developing countries, which represents 25 per cent of our total business volume, consistent with 1998 results.	• EDC currently has representatives in China and is finalizing arrangements in two more countries that have been identified as key markets.
Generate an Adequate Rate of Return EDC must generate an adequate rate of return to strengthen the financial base and enable future growth to be met on a self-sustaining basis. EDC uses a number of financial measures to track this, including: • Financial Sustainability Ratio (a measure of operating income net of administrative expenses to capital and allowances, referred to as the FSR) • Internal Efficiency Ratio (a measure of administrative expenses to operating income)	• The FSR focuses on our capacity to generate operating income in order to build up capital and allowances to support more business. In 1999, EDC achieved a ratio of 14.6 per cent, within the target range of between 13.5 and 15 per cent.	• EDC strives to manage its administrative expenses efficiently while allowing for a level of investment in people and technology to keep pace with the size and complexity of the business. In 1999, EDC achieved an internal efficiency ratio of 13.5 per cent, bettering its target of 16 per cent.
Internal Readiness To deliver its business strategy with success, EDC requires the internal resources and appropriate processes to do so. • Continue to put emphasis on training in the sales, financial and systems areas • In recognition of the strong link between leadership and employee performance, provide leadership training • Prepare for Year 2000 compliance	• In 1999, 95 per cent of EDC employees received training, with an average of just over five days each, exceeding the target of providing five days each to 90 per cent of employees. • Some 100 managers received an average of six days of training to enhance their leadership skills, well above the target of five days per manager.	• No programming or infrastructure issues were encountered with respect to Y2K during the critical period, and there were no disruptions to EDC's customer service.

Continue to support a growing number of companies selling or investing abroad by providing the products and services required to meet their needs. Specifically, EDC plans to:

- Increase the number of customers served to 5,700
- Increase the number of SMEs served to 5,015
- Achieve a customer satisfaction index of 80

Capture opportunities for Canadian companies

- Increase the volume of business supported by EDC to $45 billion
- Increase the volume of business in developing countries to $11.25 billion
- Implement the new corporate identity and branding to more accurately reflect our dynamic and commercial nature

Generate an adequate rate of return to support future risk taking.

- Achieve an FSR of 14.9%

Establish internal capabilities to enable EDC to deliver capacity and opportunities

- Focus on employee retention (targeting a less than 10 per cent voluntary separation rate), training (at least five days per employee) and leadership skills development (at least one component of the program for everyone in a supervisory capacity)
- Continue to develop the succession-planning process

Optimize the use of technologies

- Further develop and implement our e-commerce strategy (with regard to the new product offerings)
- Increase use and functionality of EDC Direct, our web-based customer access system
- Design and run a pilot of Globex, the enhanced support system for the management and administration of short-term credits insurance policies
- Proceed to production phase for new treasury management system and new loans administration system

Expand network of partners to create and strengthen capacity in the private sector

- Pursue a partnership which would allow for a seamless delivery of both domestic and international credit insurance for our customers

Establish a strong reputation for corporate responsibility

- Establish a disclosure framework
- Better define and implement the Education and Youth Employment initiatives
- Develop a plan to incorporate human rights concerns into our country risk assessments

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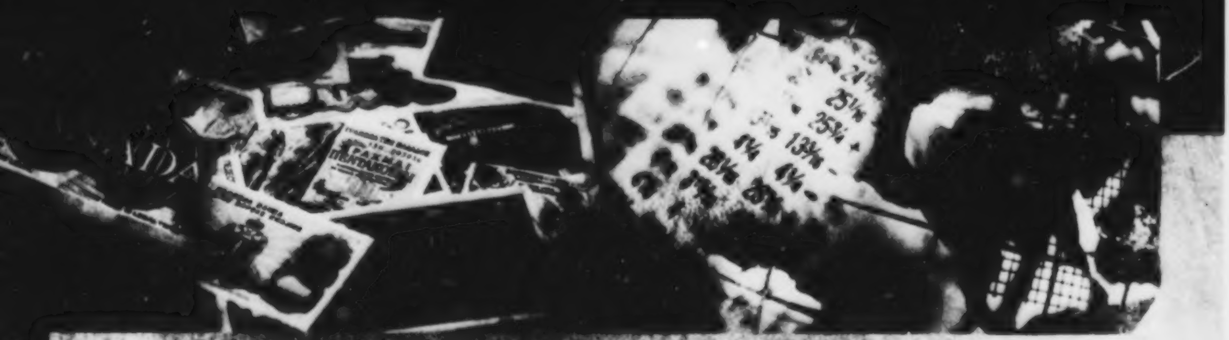
** For comparison purposes, 1998 results have been restated to include a new segment of customers.*

Financial Accountability

creating capacity



Export Development Corporation (EDC) supports Canadian exporters of all sizes pursuing international trade and investment opportunities. EDC is a unique financial institution offering some of the most sophisticated trade finance solutions and skills.

EDC strengthens the global competitiveness of Canadian exporters. We're open for business in some 200 countries around the world, including many emerging markets offering a wealth of opportunities, but a higher degree of risk. We partner with domestic and international financial institutions to expand Canadian business capability, and we act as a catalyst to help create international project opportunities.

EDC's financial services include credit insurance, bonding and guarantees, political risk insurance, direct buyer loans and lines of credit. More specialized financial services include highly structured, limited recourse financing arrangements, and joint ventures or projects that involve long-term leasing arrangements and equity participation.

Through its sector- and product-based business teams and specialized customer support groups, EDC provides a full range of trade finance services to assist Canadian exporters and investors.

Founded in 1944, EDC is a federal Crown corporation that balances commercial culture and entrepreneurial enthusiasm with public service responsibility. As Canada's leading trade finance specialist, EDC provides its customers with competitively priced financing and risk management solutions.

management solutions
trade fin [illegible]

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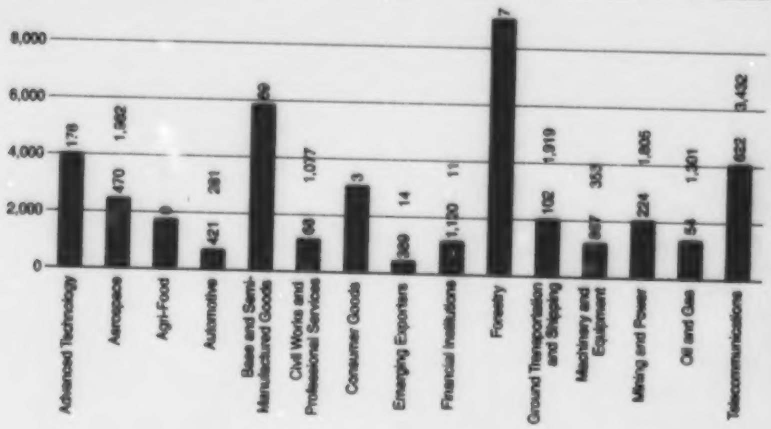
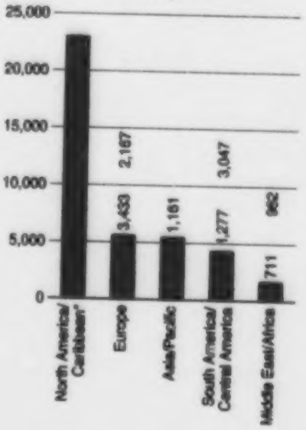
Five Year Review

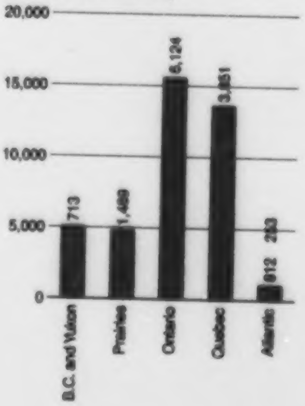
Business Volume by Industry Sector
($ in millions)



Business Volume by Geographic Market
($ in millions)



Business Volume by Canadian Region
($ in millions)



*Includes Mexico

▨ Medium- and long-term financial services

■ Short-term financial services

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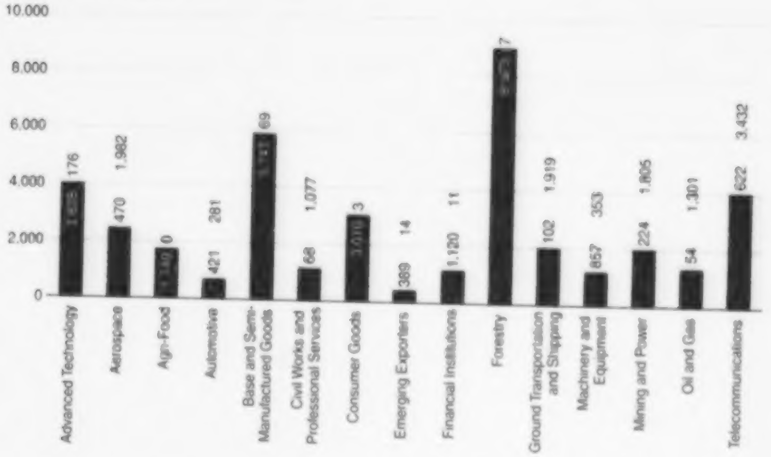
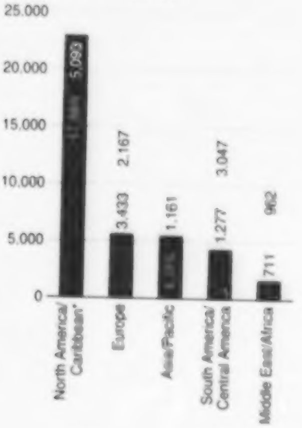
1999 Corporate Account Highlights

Five-Year Review

Business Volume by Industry Sector
($ in millions)

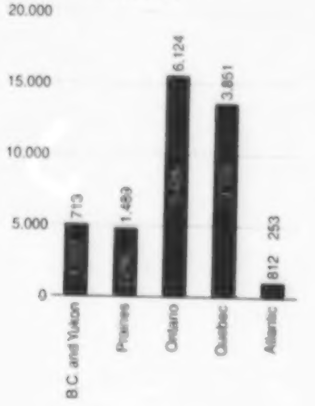


Business Volume by Geographic Market
($ in millions)



*includes Mexico

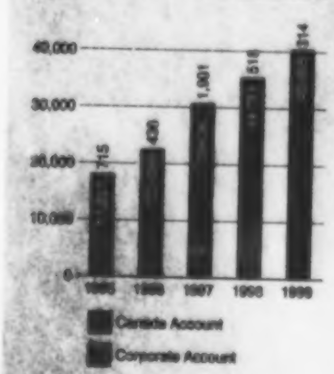
Business Volume by Canadian Region
($ in millions)



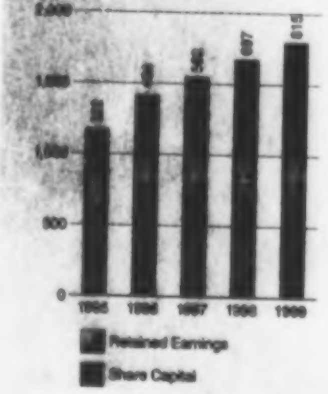
■ Medium- and long-term financial services

■ Short-term financial services

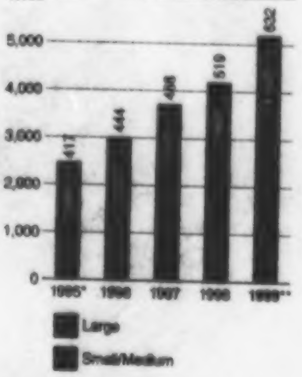
Business Volume
($ in millions)



Shareholder's Equity
($ in millions)



Customers Served
(Number of Companies)



* *includes direct customers only*
** *includes new customer segment*

EDC's vision and values

EDC's Vision

EDC will be the recognized leader in providing [illegible] commercial financial solutions to [illegible] helping them succeed in the [illegible] and create enduring prosperity for Canada.

Values

People
We are the heart and soul of EDC. Our diversity enriches us all. Each of us deserves respect and makes a difference. Working together is fundamental to our success.

Excellence
We are responsible for excellence in everything we do. We believe in personal accountability and the power of challenging the status quo.

Passion
Initiative and enthusiasm characterize the way we work. We take satisfaction in the quality of what we do. We are here because we want to be here.

Learning
We believe that learning is an invigorating and continuous process. We seek out and embrace personal and professional development, and the invaluable lessons that come from experience.

contents

Creating Capacity i

1999 Performance Against Objectives ii

1999 Corporate Account Highlights iv

Five-Year Review iv

EDC's Vision and Values v

1999 Corporate Review
- Message from the Chairman and President 2
- Small- and Medium-Sized Enterprises 6
- Canada in the New Millennium 8
- Making the Environment a Priority 10

Business Team Review 12
- SME Services Group 12
- Advanced Technology Team 14
- Aerospace Team 14
- Agri-Food Team 14
- Automotive Team 16
- Base and Semi-Manufactured Goods Team 16
- Civil Works and Professional Services Team 16
- Consumer Goods Team 18
- Financial Institutions Team 18
- Forestry Team 18
- Ground Transportation and Shipping Team 20
- Machinery and Equipment Team 20
- Mining and Power Team 20
- Oil and Gas Team 22
- Telecom Team 22

Executive Management Team 24

Management Representatives 24

1999 Financial Review 25
- Management's Discussion and Analysis 26
- Consolidated Financial Statements 50
- Five-Year Review 68

Board of Directors 71

Corporate Governance Practices 72

EDC's Code of Business Ethics 76

Glossary of Financial Terms 77

Corporate Offices 78

Creating Capacity

Canadian companies want to reduce the risks and reap the rewards of doing business internationally. Our 1999 results powerfully demonstrate how EDC is helping them make this happen. Together, we are bringing home new jobs, fresh ideas and enduring prosperity.

Through EDC's trade finance and insurance services – combined with our risk management and deal-structuring expertise – we create opportunities and increase the capacity for Canadian firms of all sizes to export and invest in some 200 countries. In 1999, we served a record 5,182 customers – of whom some 88 per cent were small- and medium-sized enterprises (SMEs). This represents 16 per cent more customers than in 1998.

We also measure our success by how well we impact our nation's trade balance – that is, the volume of export sales and foreign investment that we help generate for Canada. In spite of residual international uncertainty from the Asian financial crisis, the volume of exports and investments that EDC supported in 1999 totaled $40.1 billion. This is a solid 15 per cent more than in 1998. Overall volume of Canadian exports and investments, in comparison, rose by 11.9 per cent – largely driven by automotive sector activity.

Maintaining Customer Satisfaction

A third and vital measure of EDC's success is in maintaining high customer satisfaction. This translates into customer loyalty and continued growth – theirs, ours and Canada's. Once again, EDC gained high marks for customer service in 1999. Our overall score, compiled from interviews with nearly 950 customers, was 80.4 per cent – up from 79.8 in 1998. This score largely assesses our risk appetite, responsiveness, flexibility in designing solutions, foreign market knowledge and relevant products and services.

[illegible]

Two financial measures of success stand out in 1999: our financial sustainability ratio and our internal efficiency ratio. The first ratio reflects EDC's ability to take on the risks of more and more of our customers' growing export activities, while remaining financially self-sufficient. With a net operating income of $641 million – before prudential reserves of $523 million – we achieved a ratio of 14.6 per cent, within our targeted range. The second ratio, computed on a basis consistent with other financial institutions, ensures that our administrative expenses increase in step with the growth of our operating income. Again, our 1999 ratio of 13.5 per cent is very positive – bettering its target of 16 per cent and substantially less than most other similar financial institutions.

Striking a Dynamic Balance

Our 1999 results are a powerful testament to how we seek to balance the best of public policy with the best of private-sector methods.

We are encouraged by the strong endorsement of EDC in the *Report on the Review of the Export Development Act* (tabled in Parliament in July 1999), by the law firm Gowling, Strathy & Henderson. This report was followed in December 1999 by the Standing Committee on Foreign Affairs and International Trade's (SCFAIT's) report entitled *Exporting in the Canadian Interest: Reviewing the Export Development Act*. Both documents bring forth two key points: that EDC's unique business model works; and that the flexibility of the Act enables EDC to meet the needs of exporters and investors of all sizes.

Export and investment Growth

Overall, the mandate review offers a valuable launching pad for EDC to develop solutions for Canadian enterprise, especially for smaller businesses. It also positions us to achieve our leadership vision, for the sake of Canadian competitiveness and, ultimately, for Canada's economic and social well-being.

Helping Smaller Exporters Branch Out

Small business is one of Canada's most critical areas of economic activity. SMEs make up 97 per cent of Canadian exporters and account for 88 per cent of EDC's client base. We are especially proud of our track record with SMEs, making EDC one of Canada's largest providers of support to small business.

The studies conducted by Environics for the Gowlings Report concluded that EDC could support a first-time exporter just as capably as a Canadian conglomerate, giving this country and its citizens a unique and valuable resource. Attesting to this, 4,550 SME customers did business in 157 countries with our support last year. Only four years after the creation of EDC's dedicated services for SMEs, this customer base has grown by 123 per cent.

Patrick J. Lavelle
Chairman of the Board of Directors

A. Ian Gillespie
President and Chief Executive Officer

In addition to our regular products and services, EDC offers many *specialized* services for SMEs, most delivered in partnership with other financial institutions. New in 1999, EDC joined with Accord Business Credit Inc. to launch ExportEase, an all-inclusive package of accounts receivable insurance, credit reporting and management functions. In 2000, we aim to find new mechanisms to reach more of these firms and help take them farther.

Supporting Higher-Risk Markets

Our volume of support on behalf of Canadian companies operating in higher-risk markets around the world provides another important perspective on our unique activities. Without EDC's assistance and deal-structuring capabilities, many of these deals would never have come to fruition. At EDC, we assess the long-term opportunities of the regions and specific buyers, and the strategic importance of the individual transactions to Canadian competitiveness. We then help Canadian firms manage the increased complexity and risks associated with exporting. Our total business volume in higher risk markets was $9.8 billion in 1999. This figure was 10 per cent higher than the previous year, and involved some 143 countries.

The risks of doing business internationally are very real for Canadian companies and for EDC. We take and manage unexpected financial risks worldwide on behalf of Canadian companies. As evidence of our increased risk profile, total claims paid in 1999 as a result of Canadian trade in 66 countries jumped to $134 million – an increase from $72 million in 60 countries the year before. Provisions for credit losses rose to $523 million from $433 million in 1998. As a result, EDC's net income fell to $118 million, from $135 million the previous year.

Expanding Our Social Responsibilities

EDC is committed to finding the right balance that meets both Canada's long-term economic interests and the environmental expectations of its citizens. After extensive public consultation, EDC formally released its *Environmental Review Framework* in 1999. The framework provides a transparent and common-sense approach to evaluating and mitigating the environmental impact of projects we support. This framework is a "living" document that will evolve as we gain experience with it and receive ongoing input from our various stakeholders.

In 1999, we also allocated more resources to building awareness of EDC's services and increasing our support to Canadian entrepreneurs developing and exporting environmental technologies and solutions. In this way – and through our international marketing capabilities – we can spread Canadian environmental know-how, technology and equipment worldwide.

We also added dedicated resources in 1999 to bolster our support for Canada's talented and energetic students and young entrepreneurs, through our Education and Youth Employment (EYE) strategy. By providing sponsorships and scholarships, EDC is encouraging a learning and innovation culture and helping youth see the world as their sphere of activity. We will be broadening this program in 2000.

Boosting Export and Investment Growth

In short-term insurance activities, EDC's accounts receivable insurance covers a wide range of custom-tailored offerings. In general, this insurance protects Canadian exporters from commercial and political risks that can interfere with payment after the goods or services have been contracted and/or shipped. In 1999, our short-term business was up 15 per cent from 1998. The volume of support totaled $27.6 billion, compared to $24 billion in 1998.

Short-term claims rose by 39.3 per cent in 1999, reflecting the debilitating effects of the Asian financial crisis and its spillover into many parts of the world. While we expect claims to moderate somewhat in 2000 – barring extraordinary repercussions of any Y2K-related problems – the increasing global interconnectedness and higher concentration of risk make for less-certain predictions. EDC has been working with a Canadian private-sector insurance company to bring additional capacity to the domestic credit insurance marketplace. This was recommended in the Gowlings Report and strongly supported by SCFAIT in its December report. We expect to announce such a collaborative agreement in the early part of 2000.

Our medium- and long-term financial services cover financing, including buyer, project and equity financing; political risk insurance; and medium-term insurance, including bonding and guarantee insurance. EDC achieved a record $12.4 billion in these combined activities in 1999: notably, we exceeded our insurance target by nearly 45 per cent.

Delivering Structured Finance Solutions

In 1999, EDC supported 28 projects with structured finance solutions, including limited recourse financing and political risk insurance – a marked increase over the 18 projects supported in 1998. We expect this trend to continue as companies are increasingly attracted to the risk mitigation and other benefits of tailored financing structures. The growth in EDC's structured finance activity reflects our commitment to partnering with other financial institutions around the world and being a catalyst for Canadian business participation. Through our equity financing, which grew 117 per cent in 1999, we continue to boost smaller companies' ability to operate and compete abroad.

EDC also recognizes the strategic importance of Canadians investing abroad to our country's global competitiveness. The Corporation acts as a powerful advocate internationally for Canadian know-how, quality and inventiveness. In 1999, we prepared the groundwork for EDC to increase this advocacy role and bring tangible opportunities to Canadian firms through stronger management of international relationships.

We are now ready to establish permanent EDC representatives in two key Latin American markets: Brazil and Mexico. These representatives will be responsible for increasing the opportunities for Canadian companies not only in these two promising countries, but throughout Central and South America. EDC's centres in Brazil and Mexico will complement our well-established representation in Beijing, China.

Building Prospects for 2000

Canadian exports are forecast to grow at a healthy pace of between six and eight per cent in 2000. With the world economy continuing to expand, now is the time for Canadian businesses to penetrate global markets. With freer trade and borderless e-commerce, global growth is necessary for companies of all sizes to survive.

On the international front, we will continue to promote best environmental and commercial practices among export credit agencies. Domestically, we will build on our public disclosure practices by introducing in 2000 an enhanced framework on the disclosure of our business activities. This framework is mindful of both the public's right to know and the customer's need to protect its competitiveness.

To facilitate future growth, our contingent liability ceiling (pursuant to Section 10(3) of the *Export Development Act*) was increased last year from $15.0 billion to $17.5 billion. Following the final deposition of the five-year EDC mandate review, we will seek legislative changes to help us create, for example, a bilingual name and a more visible corporate identity. These changes respond to the results of our consumer awareness testing.

Our corporate objective for 2000 is to create and deliver capacity, capability and opportunities to support Canadian companies pursuing international business. Over the next five years, this will translate into aggressive goals of doubling our customer base, increasing our capital base one-and-a-half times, expanding our partnership network to strengthen private-sector capacity, and optimizing the use of technologies for product delivery. Concrete strategies back EDC's ability to deliver the financial capacity, skills capability and tangible opportunities for Canadians to survive and thrive internationally.

Creating a Learning and Innovation Culture

EDC's talented people are the engine that drives the Corporation to be "a recognized centre of excellence for trade finance in Canada," as described in the Gowlings Report. "[EDC's] staff is highly skilled, innovative and provides prompt, knowledgeable service."

In our knowledge-based economy, innovating, embracing change and learning new skills and behaviours hone our competitive edge. In 1999, we devoted approximately $2,000 per employee toward training and development. We trained management to motivate our people to live up to their potential and generate new ideas. Our 1999 Employee Opinion Survey results indicate that job satisfaction is very high. Most indicators exceed those of other North American organizations, including "high-quality" firms, as defined by our survey consultant.

We believe that these and other measures will ensure we are not just the largest pool of trade finance skills under one roof in Canada – but also the employer of choice in our field. An experienced and dedicated board of directors, whose strategic counsel and broad Canadian perspectives are vital to EDC's success, also backs us. In 1999, two new directors were appointed: Raymond Setlakwe and Dennis Wood, both of Quebec. We recognize the valued contributions of Marcel Dufour (Quebec) and Huguette Labelle (Ontario), who retired from the Board during the year.

In closing, we would like to reiterate our thanks to all our people and board of directors for EDC's many accomplishments in 1999. We are confident that their fresh ideas and enthusiasm will take our services, partnerships and expertise to new heights in this millennium – for our customers, for our shareholder and for all Canadians.

Patrick J. Lavelle
Chairman of the Board of Directors

A. Ian Gillespie
President and Chief Executive Officer

small- and Medium-sized Enterprises

Small Business, Big Results

Small- and medium-sized enterprises (SMEs) are divided into two categories: small businesses that have up to $5 million in total annual sales, and medium-sized businesses that have annual saies of between $5 million and $25 million.

In 1999:

- A record 624 emerging exporters – brand-new exporters, as well as more seasoned companies with annual export sales of up to $1 million – began insuring their export receivables with EDC.
- Some $6.1 billion in exports to 157 countries was concluded by 4,550 SMEs with EDC backing, making it a record year.
- EDC intensified efforts to become part of the SME fabric in Canada. A highlight of the year was sponsoring Junior Team Canada, where EDC's Global Training Centres brought the basics of exporting to 1,200 students from coast to coast and helped pave the way for the youth trade mission to Southeast Asia in late summer. Other EDC sponsorships included the Young Entrepreneurs Trade Mission to Silicon Valley, the Women's Trade Mission to Los Angeles and to the Canada/USA Businesswomen's Trade Summit, and NEXUS '99, organized by the Assembly of First Nations.

- SME customers registered strong overall satisfaction with EDC in the Corporation's annual customer survey. In fact, all key tracking indices (satisfaction with service levels, risk appetite, response time and the financial products themselves) recorded increases.
- In the spirit of international co-operation and learning, the chairman of US EXIM, the Argentine minister responsible for small business, and a senior-level delegation from Singapore all visited EDC for briefings exclusively relating to EDC's specialized services for SMEs. EDC played a key role in the export program of the prestigious annual International Small Business Congress. Senior SME officials from EDC participated in the Berne Union SME Workshop.
- A total of 111 customers each eclipsed $1 million in export sales. While cracking the million-dollar mark in annual revenues is a difficult but powerful milestone for small business, surpassing $1 million in *export* sales is even harder. These customers proved that achieving success abroad means achieving prosperity here in Canada.
- Small- and medium-sized capital goods exporters concluded 30 transactions in 15 countries through EDC's SME Financial Services Team. As well, NORTHSTAR Trade Finance Inc. – a strategic partner of EDC in the medium-term buyer-financing field – helped 27 exporters conclude $48 million in capital goods sales to 12 countries.

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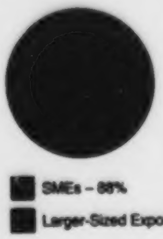
SME Scorecard

	Dec. 31 1999	Target 1999	% Achieved	Dec. 31 1998
SME – Customer count (direct and indirect)	[illegible]	4,437	103	3,664
SME – Business volumes ($ millions)	6,1[illegible]	6,142	100	5,752
EE* – Number of new customers**	[illegible]	660	95	526
EE – Average credit approval turnaround time	1.8 days	1.5 days	–	1.6 days

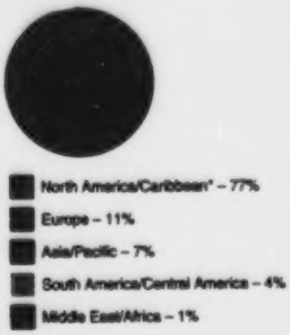
* *Emerging Exporters*

** *Results for the Emerging Exporters Team are based on direct customers only.*

SMEs as a Percentage of EDC's Customer Base

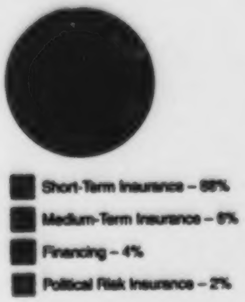


SME Volume by Geographic Market

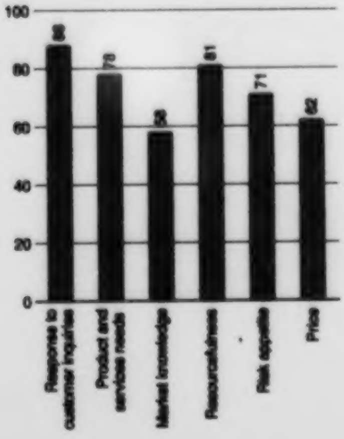


*Includes Mexico

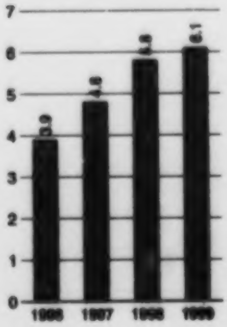
SME Product Usage



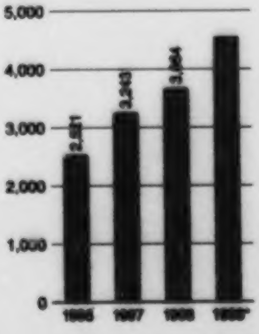
SME Service Attribute Ratings
(Per cent)



Volume Support for SMEs
($ in billions)



Number of SME Customers



* Includes new customer segment

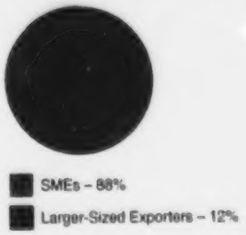
SME Scorecard

	Dec. 31 1999	Target 1999	% Achieved	Dec. 31 1998
SME – Customer count (direct and indirect)	**4,550**	4,437	103	3,664
SME – Business volumes ($ millions)	**6,122**	6,142	100	5,752
EE* – Number of new customers**	**624**	660	95	528
EE – Average credit approval turnaround time	**1.5 days**	1.5 days	–	1.6 days

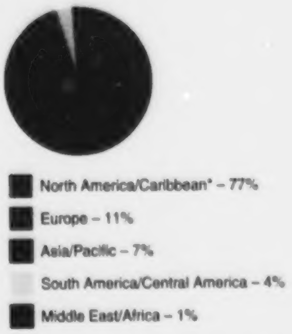
* *Emerging Exporters*

** *Results for the Emerging Exporters Team are based on direct customers only.*

SMEs as a Percentage of EDC's Customer Base

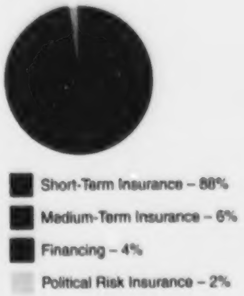


SME Volume by Geographic Market



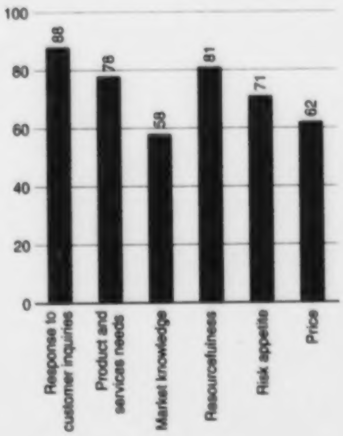
*Includes Mexico

SME Product Usage



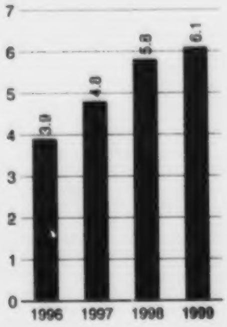
SME Service Attribute Ratings

(Per cent)

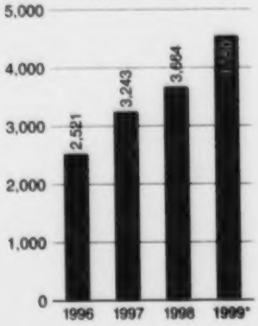


Volume Support for SMEs

($ in billions)



Number of SME Customers



* includes new customer segment

Increasing Canada's Competitiveness

By all accounts, the news is good. Canada is enjoying renewed prosperity. Unemployment is at its lowest point in 20 years; inflation is low and under control; private spending is up and fiscal deficits are down. Canada is experiencing robust growth, which is expected to remain strong in 2000. The economy is continuing its shift to the high-tech and services sectors that look set to dominate the 21st century economy.

The combined impact of trade liberalization and growing trade integration within North America have heightened Canada's dependence on trade: exports now total 41 per cent of Canada's GDP, versus 27 per cent just 10 years ago. This is the highest level in the industrialized world and three times that of the United States. Alongside the growing importance of trade, Canadian foreign direct investment (FDI) abroad has grown steadily, to the point where Canada has become a net exporter of FDI. In the years ahead, the dividends from these investments will enhance our prosperity. It is not difficult to see why Canada's economic confidence is at record levels.

Despite these gains, there are indications that Canada must take action to keep pace with the global competitive race over the long term. Per capita incomes have risen more slowly than in other countries, productivity is lagging behind our major trading partners, and Canada ranks sixth among the G-7 in terms of R&D expenditures.

Seizing Global Opportunities

A number of factors are at play. With the United States by far our key trading partner (currently absorbing about 85 per cent of our exports), we are left open to changes in U.S. policies and fluctuations of our dollar relative to that of the U.S. There are promising export markets in Latin America, Asia and Europe, which have been largely overlooked by Canadian exporters. Now is the time to seize these opportunities.

Trade finance is a critical ingredient for successfully exporting to these markets. Foreign buyers facing financing constraints increasingly look to their suppliers for alternative financing sources. Canadian companies are disadvantaged relative to foreign competitors that have access to deeper and broader capital markets to support their expansion abroad. EDC's activities are vital to ensuring a level playing field. It is open for business in some 200 markets – far more than private financial institutions are able to support.

Positioning Canada for Prosperity

EDC substantially contributes to the government's trade and economic policy objectives. Through its support of Canadian firms of all sizes – from giant trans-national corporations (TNCs) to smaller companies – EDC is helping to position Canada for lasting prosperity.

Despite the growth of high-tech sectors such as aerospace and telecommunications, in which Canada is a world leader, resources still account for one out of every six dollars worth of Canadian exports. The jobs supported by these resource-based exports are important. But, as a nation, we need to acknowledge that jobs outside the resource sector hold greater promise over the long term. Our goal should not be to compromise our resource strength, but to ensure that technology-based business has the tools it needs to succeed in the competitive global economy.

The Canadian dollar is second only to the Italian lira among G-7 countries in terms of its reduced buying power over the past decade. In the last couple of years, many Canadian companies have capitalized on a weak dollar to establish a market presence overseas. Yet, a weak dollar can also prevent firms from innovating, from making investments in new processes and products, and from acquiring and building assets off-shore that are needed for global success. A weak dollar also tends to undervalue existing Canadian business assets, making Canadian companies more subject to foreign acquisitions.

innovation

The recent strengthening of the Canadian currency is an extremely positive sign that Canada and the rest of the world are rebounding from the Asian economic crisis. The challenge now is to make Canadian exports more sustainable and less reliant on a weak currency.

Moving forward into the new millennium, it is time to reinforce an innovation culture focused on creating and enhancing wealth. Canadian companies innovate less than others, and we must do more. The Conference Board of Canada has defined innovation as a process "through which additional economic value is extracted from knowledge." Innovative companies are more profitable, create more value-added jobs and fare much better in global markets than less innovative companies.

Entrepreneurship is at the root of innovation. Traditionally, Canadians have resisted the risk-taking spirit that would allow them to venture out, explore and launch innovative companies that typically drive the new economy. EDC's support of small business encourages entrepreneurship by conferring to companies the ability to manage risk when they take on additional business or export to new markets. People are key to successful entrepreneurship. In this respect, Canada must strive to retain the highly skilled workers it has grown and attract those it needs to continue to flourish and innovate. This is particularly true of jobs in senior management, high-quality production, R&D, and strategic and project direction.

The aim is to encourage innovation and growth.

Broadening Our Export Focus

As the global village increasingly becomes the playing field, more Canadian companies will need to ramp up their efforts to take their business beyond our borders. Canada must strive to adopt a broader, more diversified export focus and must do so quickly. The risks are real, but so are the costs of complacency.

If Canada is to improve or even maintain its relative position, then those of us committed to trade and investment, including EDC, must find ways to help all Canadian businesses better meet the challenges and opportunities of globalization.

In its recent legislative review, EDC received a clear message from stakeholders: do more for Canadian investors, exporters and their foreign buyers. EDC can do exactly that by more extensively applying its mandate to act as a catalyst for Canadian business opportunities; by further enhancing its risk management capacity; and by notching up its efforts to partner with Canadian financial service providers. This will enhance private-sector capacity to support Canadian trade and investment over the long term – by attracting and involving financial players of every type both within and outside of Canada.

EDC will continue to play a leadership role in increasing opportunities for Canadian companies abroad and boosting their competitiveness so that we stay strong. Exporting activities contribute to Canada's long-term economic health by creating higher-paying jobs and enduring prosperity.

Canada is fortunate to have all the right tools at its disposal to be an economic world leader. Now is the time to use them.

Branching Out

EDC undertook several significant initiatives to promote and strengthen its commitment to the environment in 1999. These initiatives included implementing an environmental review framework; enhancing support to Canadian environmental exporters; participating in multilateral agreements in support of environmental practices; and establishing partnerships to help share and disseminate environmental information and expertise.

Generating an Environmental Review Framework

EDC's *Environmental Review Framework*, developed in consultation with a broad range of stakeholders, was implemented in April 1999. The framework affirms EDC's commitment to environmental protection and sustainable development. It clearly states EDC's intention to refuse support for projects that do not adhere to accepted industry environmental practices. As well, the framework articulates EDC's requirements and procedures for evaluating and mitigating the environmental impact and risk associated with projects seeking EDC's support.

[illegible] leadership [illegible] exporting [illegible]

In compliance with the EDC framework, all projects considered for support in 1999 were subjected to a preliminary screening process. Those with potential environmental effects were reviewed in detail by EDC's engineering and environmental specialists. Projects with potential for significant environmental effects were required to submit comprehensive environmental impact assessments (EIAs).

All projects approved for EDC support adhere to accepted industry environmental practices. These, in the vast majority of cases, are comparable to widely recognized environmental and social standards, such as those of the World Bank and other multilateral financial institutions. Where required – such as for areas where regulatory or enforcement procedures are a concern – EDC has predicated its support on regular monitoring of and reporting on environmental and social issues.

In 1999, EDC strengthened its ability to conduct environmental project reviews by training its engineers and financial services officers and increasing its staff of environmental specialists.

Promoting Multilateral Agreements

EDC continues to play an important leadership role in the international financial community. At the OECD Export Credit Consensus in particular, we are promoting a strengthened multilateral approach on environmental practices for all trade finance institutions. A multilateral agreement is, in EDC's opinion, the most effective way to raise the yardstick in environmental performance without compromising the competitiveness of exporters.

Recognizing the importance of working towards common environmental practices, EDC became a signatory to the Financial Institutions Initiative under the United Nations Environmental Program (UNEP) in April 1999. This policy initiative provides a constructive forum for debate among financial institutions, multilateral agencies and environmentalists on a broad spectrum of issues related to the environment and sustainable development.

Building Awareness

The global market for environmental goods and services is more than $700 billion annually, with growth exceeding five per cent per year. In 1999, EDC launched an important environmental export initiative, committing more resources to help Canadian companies attain leadership in exporting environmental technologies and services.

Through trade shows and sponsorships, this initiative builds awareness of EDC within the industry. Canadian companies are advised of potential environmental opportunities abroad and how to cultivate relationships with foreign governments, project sponsors and key associations.

Canadian companies have participated in a number of major environmental projects with EDC's support. Projects supported in 1999 included: waste water treatment plants in Latin America, Asia and Africa; solid waste management services in various industrialized countries; rail transport of hazardous chemicals to replace road transport in Chile; conversion of vehicles to alternative fuels in Asia; vehicle emission testing in the United States; and environmental consulting services around the world.

Exporting Canadian expertise, technology and equipment is, in EDC's opinion, one of the most effective ways of enhancing global environmental performance.

Forging Partnerships

EDC is taking a leadership role on environmental issues by advocating and promoting best practices among those with whom it does business, consistent with its corporate values and philosophy.

Following the implementation of the *Environmental Review Framework*, EDC hosted a two-day environmental workshop in the fall of 1999, for export credit agencies and international financial institutions. This workshop – attended by some 50 representatives from 23 financial institutions – helped participants understand the technical issues surrounding environmental risk assessment of projects.

EDC was an organizer and participant at the Fifth International Roundtable Meeting on Finance and the Environment, under UNEP. The 1999 theme, "New Roles for Finance in the Race to Sustainability," brought together some 150 participants, including environmental organizations and financial institutions. Last year, EDC joined the Canadian Environmental Industries Association (CEIA) and participated in its trade mission to Mexico. EDC is also working closely with CEIA's provincial chapters to increase awareness of the Corporation's services among CEIA members.

In 2000, EDC will be a major sponsor of Globe 2000, the largest environmental conference in North America, held bi-annually in Vancouver, B.C.

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Creating Capacity in Industry Sectors

EDC [illegible]

[illegible] There [illegible] needs. Through [illegible]

Several product [illegible] limited recourse [illegible] Insurance Team [illegible] financial institutions [illegible] provides supplemental [illegible] benefits to Canada. The [illegible] solutions and indirect [illegible] insurance and financing programs.

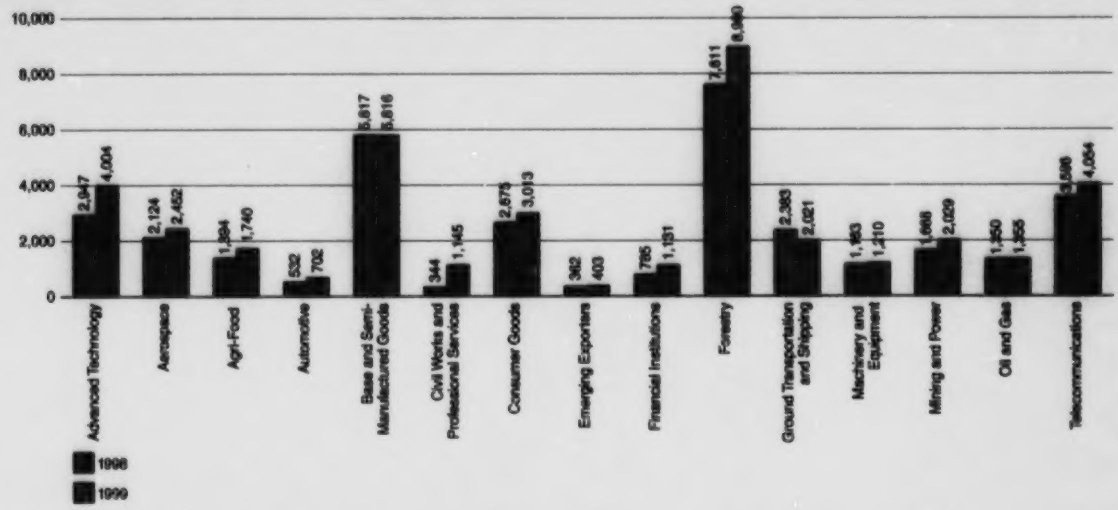
Other specialized support [illegible] country knowledge and partnership agreements with [illegible]

More small businesses went global in 1999 than ever before. These new businesses looked to EDC to provide the support they needed to succeed abroad. A total of 624 companies – many of them exporting for the first time – signed up for receivables coverage, through EDC's Emerging Exporters Team, that helped them export with confidence last year.

EDC's SME Financial Services Team and its strategic partner, NORTHSTAR Trade Finance Inc., experienced significant growth in business activity in the latter half of 1999. This growth indicates Canadian capital goods exporters have rebounded from a slow start.

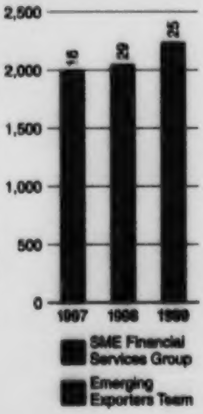
Export markets can sometimes be risky and the deals made with foreign buyers challenging. EDC will therefore continue to seek ways to provide the backing that smaller exporters need – when and where they need it.

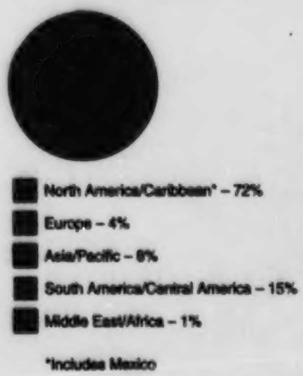
Financial solutions



** Individual team business volume figures prior to 1999 have been restated in this year's report to reflect the restructuring of business teams.*

> **"Without EDC's support, we probably wouldn't be around today. It responded quickly when we decided to export, and the service was top-notch. EDC's support provided our bank with the assurance it needed to set up our line of credit."**
>
> Clifford Dyke
> Director, Finance and Administration
> Newsul Enterprises Inc.
> St. John's, Newfoundland





Business Team Review

Creating Capacity in Industry Sectors

EDC delivers its products and services through sector-based business teams. These teams work with exporters and investors to create financial solutions that meet customers' specific needs. Through their specialized industry knowledge, EDC's business teams promote a high level of customer service.

Several product teams provide in-depth expertise to the sector-based teams. The Project Financing Team provides limited recourse financing to address exporters' needs for flexible and innovative financing. The Political Risk Insurance Team delivers leading-edge support to investors, exporters and financial institutions. The Equity Team provides supplemental, medium-term equity on a commercial basis for transactions that generate direct, quantifiable benefits to Canada. The Contract Insurance and Bonding Team delivers tailored commercial risk management solutions and indirect working capital support through EDC's contract insurance and bonding programs.

Other specialized support teams focus on risk management expertise, credit analysis, country knowledge and partnership agreements with other financial institutions.

SME Services Group

No company is too small to export, and no exporter is too small for EDC. EDC's SME Financial Services Team provides buyer-financing solutions that address the specific needs of smaller exporters. The Emerging Exporters Team works with any company having annual export sales of up to $1 million.

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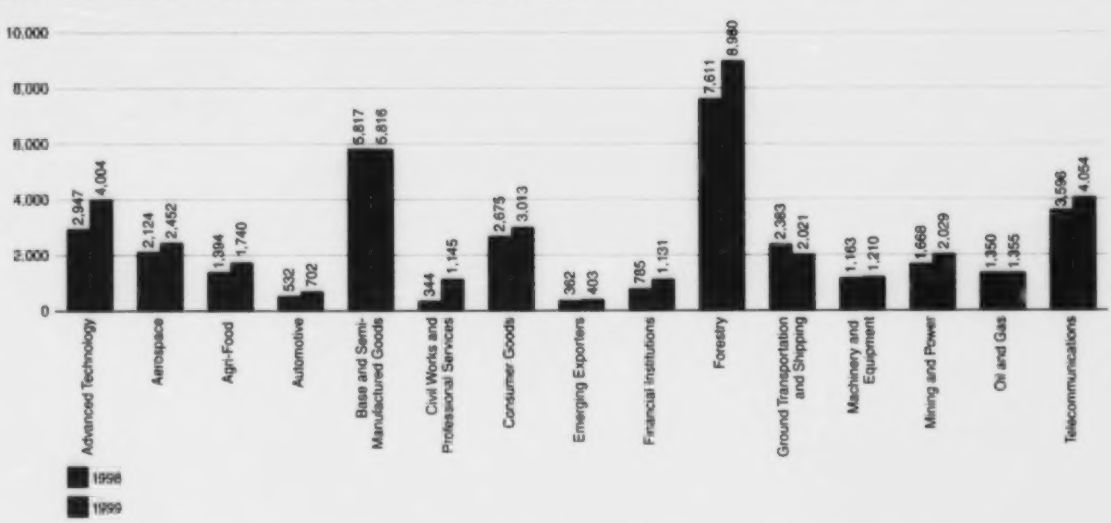
Business Team Volume Review*
($ in millions)



* *Individual team business volume figures prior to 1999 have been restated in this year's report to reflect the restructuring of business teams.*

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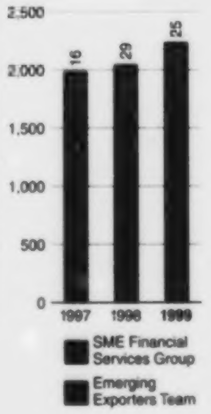
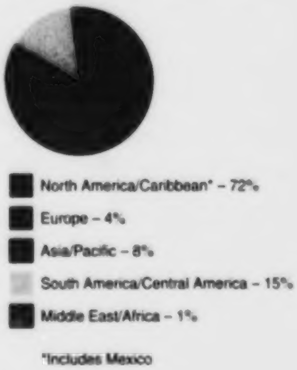
Clifford Dyke
Director, Finance and Administration
Newsul Enterprises Inc.
St. John's, Newfoundland

Customers Served



Business Volume by Geographic Market



More customers, rapid growth and increasingly complex contracts characterize the AT business that EDC supported in 1999. This growth and the complexity of contractual arrangements in the sector have challenged the team to find new ways of supporting its customers' export sales.

During 1999, there was intense competition among computer equipment manufacturers, as well as continued industry consolidation. The result was elevated credit risk in the major distribution channels for computers, peripherals and software. As well, credit management challenges arose for the AT team and its customers. Customized software, electronic manufacturing services and instrumentation represented significant growth sectors for EDC's AT Team last year.

The year 2000 will see continued divergence of intellectual property holders and product manufacturers, as well as the convergence of content and distribution on the Internet.

Last year marked several firsts for EDC's Aerospace Team, including its first financing transaction in Australia with an Australian airline. The team also supported an important helicopter order in Saudi Arabia, as well as various aircraft and aircraft engine transactions in the United States. Finally, support to several repair, overhaul and maintenance providers was also an important element of EDC's partnership with the Canadian aerospace industry.

As Canada strives to become the fourth-leading aerospace producer worldwide, EDC expects to partner with even more Canadian aerospace companies in support of this goal.

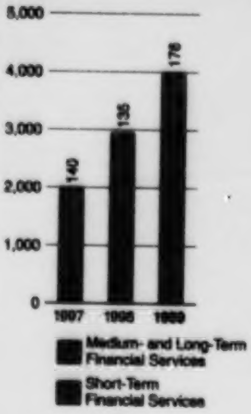
The new team is well-positioned to anticipate the unique needs of agri-food exporters by keeping pace with industry trends, familiarizing itself with exporters in this sector, and understanding the risks of both exporters and their foreign buyers.

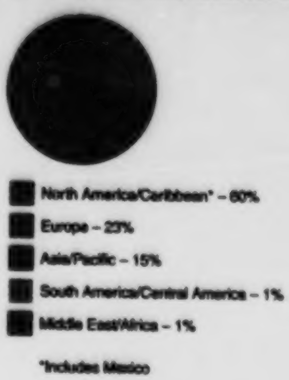
The United States will continue to be a key market for this sector. However, exporters can benefit from EDC's risk transfer services to access bank financing for expansion into emerging markets. As well, the team will continue to diversify products to meet customers' requirements.

In the future, team members will work closely with Canadian companies to find flexible solutions that will accommodate the growing demands of foreign buyers.

"EDC provides solutions to sales financing problems around the world, helping us take on contracts we might not otherwise consider. Its support facilitated a recent bid in Central Europe on a project that will yield benefits to thousands of cancer patients. Our EDC partnership is vital to our future growth."

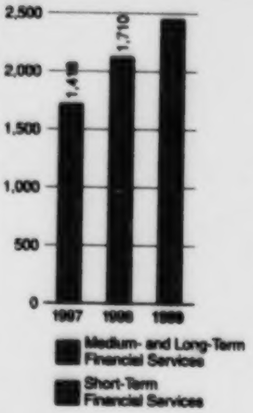
Michel Landry
Director for Central and Eastern Europe
MDS Nordion Inc.
Kanata, Ontario
(former Canada Export Award winner)

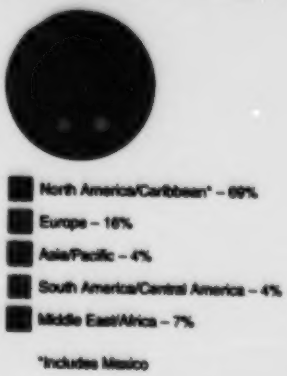




"EDC has helped us solidify relationships with key clients by providing them with effective financial solutions. EDC also served as a good source of expertise in challenging markets such as Venezuela, thereby enhancing our ability to obtain future business there."

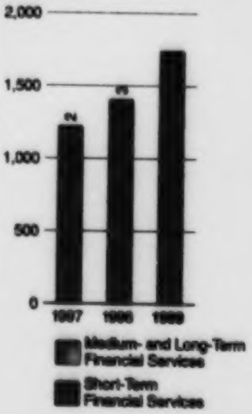
Michael Russell
Senior Administrator, Sales Financing and Credit
Pratt and Whitney Canada Inc.
Longueuil, Quebec
(former Canada Export Award winner)

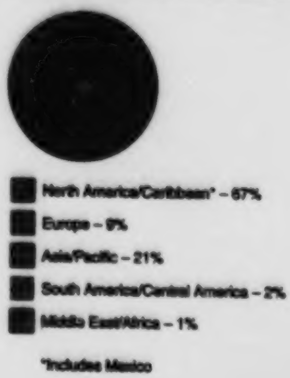




"EDC's support dramatically changed our relationship with our bank, giving it the security to increase our working line (of credit). This allowed us to increase our business worldwide. EDC's ability to immediately approve our coverage kept us competitive."

Terry Banks
President
E.S.D. Fisheries Ltd.
Lower Wood Harbor, Nova Scotia





Last year set a precedent for automotive sales, as well as for the heavy truck market. In 1999, EDC strengthened its key partnerships with the Automobile Parts Manufacturers Association and the Automotive Industries Association. Strong customer survey results contributed to customer loyalty and repeat business. Growth also came from a new customer base.

In 2000, the United States will continue to account for the bulk of Canada's automotive exports and investments. Mexico will also remain strong, with a 50 per cent increase in vehicle production capacity forecast by 2004.

EDC is well-positioned to help customers meet the financing challenges of foreign plant expansion, and to minimize Canadian companies' risk in their foreign ventures.

In a year of challenges, this sector experienced continued volatility in key markets such as South America. Prices and volumes declined across many sub-sectors, particularly in the first half of the year.

Although evidence would suggest a stabilization of commodity prices, markets will likely remain highly competitive. EDC anticipates continued rationalization and consolidation going forward.

Despite these challenges, EDC maintained its presence in markets such as South America last year. This indicates EDC is well-positioned to provide even more value to companies in managing their export risks, thereby creating opportunities for Canadian companies.

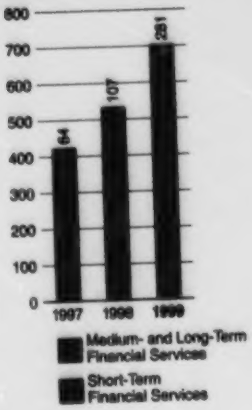
The Civil Works and Professional Services Team supports a wide range of export business – including relatively small service contracts, commercial and housing construction work, and larger projects to develop and build airports, toll roads, ports, water and sewage treatment plants and other infrastructure.

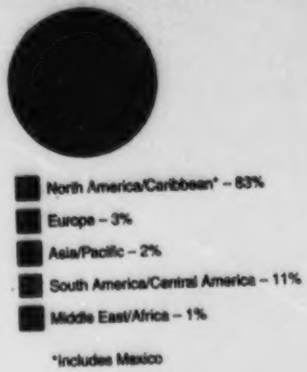
Reflecting the needs of its customers in these sectors, the majority of support delivered by this team is in the form of export insurance, contract performance guarantees and surety reinsurance.

The team experienced significant growth in both business volumes and customers served in 1999 as it increased support in its major sectors and broadened its range of services. These trends are expected to continue in 2000. Two of the drivers behind these expectations remain the relatively strong economic activity in the United States (a key market for Canadian construction companies) and the major need for infrastructure development in emerging markets.

"The globalization of the automotive industry has become a reality. To maintain our competitive advantage, we provide innovative solutions to our customers' problems. For part of the financial solutions, we rely on the expertise, flexibility and support that EDC can provide globally."

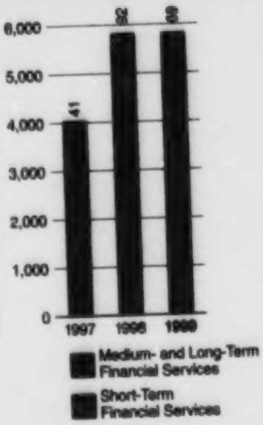
Nick Sauro
Controller
Federal-Mogul Tri-Way Ltd.
Windsor, Ontario

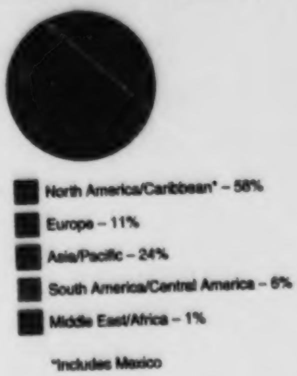




"Because the majority of our sales are exports, we truly value our partnership with EDC. Its backing enables us to enter new markets with greater confidence. This has gone a long way towards helping us realize substantial growth over the last two years."

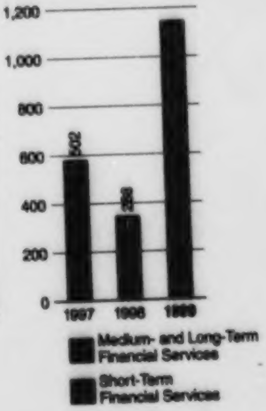
Randy Beitz
Controller
Champion Photochemistry Limited
Mississauga, Ontario

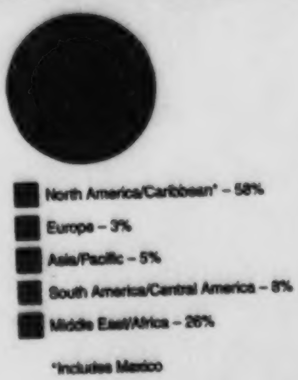




"I can attribute our company's success and growth to the assistance, co-operation and facilities provided by EDC. I hope more Canadian companies come to know about EDC and use its services."

Taha Qirbi
President
Canspect Corporation
Nepean, Ontario





Demand for consumer goods continued to increase in 1999, particularly in the booming U.S. market. The U.S. retail sector still represents significant commercial risk for Canadian exporters. EDC has been there to provide risk management solutions to consumer goods companies of all sizes. This sector is characterized by many small- and medium-sized exporters that can benefit from the added financing EDC credit insurance often affords.

Because it understands the needs of, and challenges faced by, its customers and their buyers, the Consumer Goods Team can provide custom-tailored solutions.

With the U.S. retail market continuing to drive demand into the future, Canadian exporters will benefit from strong consumer spending in the United States, expected to grow by three per cent in 2000.

In 1999, financial institutions began looking to EDC more as a strategic partner than ever before. The impact of the financial crises in Southeast Asia, Russia and Latin America affected countries directly concerned and the trade financing strategies of the banks active in those areas. To help manage their own risks, banks look to EDC for the additional reach required to continue supporting Canadian exporters in emerging and higher-risk markets.

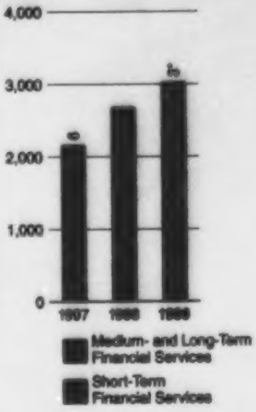
Last year saw a continued shift in the shape of world banking, with bank bailouts, restructurings and casualties. These complexities will remain in 2000 and beyond. The EDC team is uniquely positioned to provide real value-added service with its knowledge of foreign banking sectors, credit surveillance and risk mitigation expertise.

In 1999, several factors translated into increased EDC support for forest products. These included: increased demand for pulp from Western Europe and Asia; lifting of import restrictions in Brazil, which boosted support in this key market for newsprint; and lumber prices that were sustained above normal levels as a result of the healthy U.S. housing market, as well as by downtime taken by many producers.

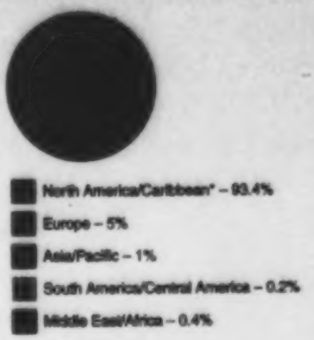
Building on growth over the last two years, exports of Canadian forest products are expected to increase by nine per cent in 2000. This growth will result primarily from recovery in Asian markets and continued improvement in pulp and paper market conditions. EDC will continue to play an integral role in supporting this growing sector.

"EDC has helped put Aerobic Technologies on the map. Its ability to enhance our credibility with our bank has enabled us to grow our business exponentially. EDC continues to innovate, so as to provide services that best meet the needs of smaller businesses like ours."

Nat Findlay
President
Aerobic Technologies Inc.
Quebec, Quebec



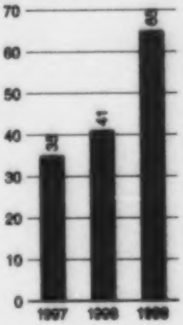
*Net of agri-food volume
(See page 15.)

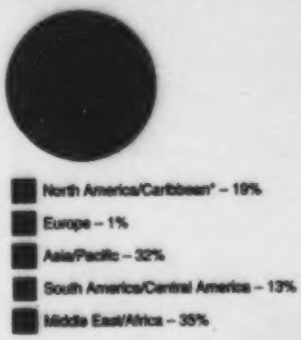


*Includes Mexico

"EDC is a virtual part of our risk management team – a tremendous ally when difficult situations arise. Through EDC and its network with Canadian government representatives worldwide, I'm confident that I'm partnering with a company that has our best interest at heart."

Wing Morse
Senior Manager and Head, Stuctured Trade
and Commodity Finance
Royal Bank of Canada
Toronto, Ontario

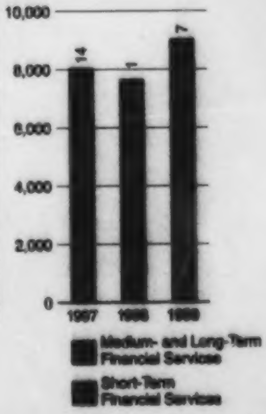


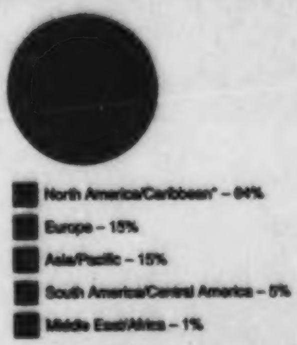


*Includes Mexico

"(Selling our products) to more than 50 countries would not be possible without the support of EDC. In many overseas markets, payment terms play a key role in our ability to develop and maintain our market presence. We view our relationship with EDC as an integral component of our credit management strategy."

E.R. Seraphim
Managing Director, Pulp and Paper Marketing
West Fraser Timber Co. Ltd.
Vancouver, British Columbia





*Includes Mexico

The Ground Transportation and Shipping Team experienced a number of significant events in 1999. The team was proud to support its first sales of freight cars to a U.S. buyer and locomotives to Mexico.

Last year also marked a significant step for EDC as it began to actively support Canadian companies in the shipbuilding sector. The Corporation financed transactions involving a floating oil platform, new ship construction and ship repairs.

Canadian shipyards and EDC are currently undertaking joint business development initiatives to secure an even greater amount of business in 2000 and beyond.

EDC's support for the plastics and packaging sector has grown by 100 per cent over the last three years. Canadian exporters have benefited from EDC's services to increase their sales and improve their working capital while minimizing payment risk.

EDC's participation in the paper and forestry sectors has traditionally involved large projects. More recently, EDC's role has focused on partnering with exporters, investors and other financial institutions to broaden its involvement in the machinery and equipment sector. By developing more in-depth knowledge and visibility, EDC aims to increase procurement opportunities for Canadian suppliers. As the landscape is changing rapidly, opportunities continue to arise. EDC is well-positioned to support its customers.

The growth prospects for the pulp and paper sector are good in the short term, with important capital investments likely to take place in 2000 and 2001. In addition, North American and European markets are focusing on improved plant efficiencies and value-added product strategies. This represents a growing niche for suppliers of goods and services to this sector.

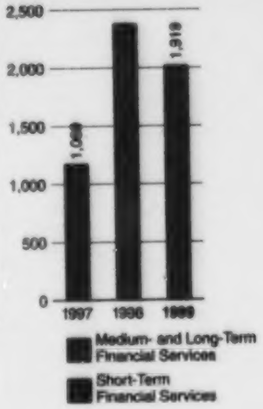
Support for the Antamina copper-zinc mine in Peru in 1999 demonstrates EDC's ongoing commitment to helping Canadian project developers in the global marketplace. Similar facilities concluded with Codelco in Chile and Grupo Minero Mexico acted as catalysts for sales made by smaller-sized Canadian suppliers.

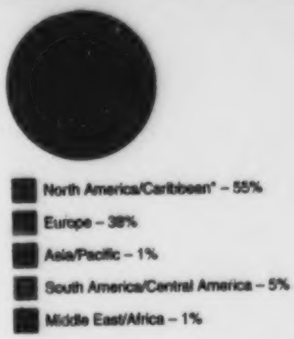
Looking ahead, opportunities exist to sell Canadian mining expertise for upgrades and existing production facilities in Latin America. Development opportunities are also emerging in Africa.

Restructuring of the electrical industry is increasingly becoming a catalyst for economic growth in this sector. We see opportunities in the United States for merchant power projects, as well as in emerging markets for projects such as Sidi Krir in Egypt and the Chamera hydroelectric project in India.

> "EDC has recognized our financing issues and has been innovative in looking for ways to meet the needs of our industry. EDC's proposal for the financing of ship repairs on vessels operating on international routes is an example of what can be done when there is a will to do so."

Peter Cairns
President, Canadian Shipbuilding Association
Ottawa, Ontario

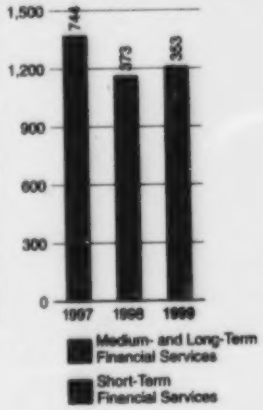


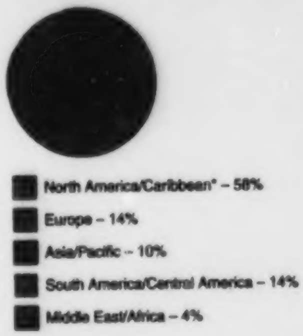


*Includes Mexico

> "Like any company, our success depends on our ability to stay competitive, manage an efficient cash flow and win the next contract. EDC has been an important ingredient in helping us free up working capital, as we move forward."

Stefan Lupke
Executive Vice President
Corma Inc.
Concord, Ontario

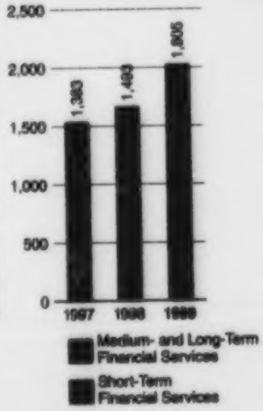


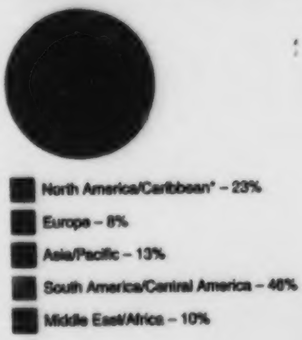


*Includes Mexico

> "EDC's continued support, specifically in providing project financing and extending Performance Security Insurance and Performance Security Guarantee coverage, has allowed Sandwell to undertake more and larger marine concentrate terminal projects for major mining clients such as Collahuasi and Antamina."

Richard Fraser
Vice President, Corporate and Project Development
Sandwell Engineering Inc.
Vancouver, British Columbia





*Includes Mexico

[illegible]

Last year can be best characterized as a year of extreme volatility in the oil and gas sector. Nevertheless, EDC provided $1.3 billion in support of Canadian investors and exporters engaged in international activity.

Having a team devoted solely to the oil and gas industry has enabled EDC to work more closely with its clients. As a result, EDC can bring tailor-made financial and risk management services that leverage international opportunities for Canadians.

Notable examples of support provided to major projects in which Canadians are involved include the Cantarell Nitrogen plant in Mexico, the Qatar Chemical Project, and the Maritimes/Northeast Pipeline, which runs from Nova Scotia to New England.

[illegible] Telecom Team grew [illegible] demand [illegible] exporters

The Internet has become a global driver in the growth of the telecom sector. Looking ahead, the Internet is forcing businesses to reconsider how they interact with customers and suppliers to gain a competitive advantage. Internet growth is forcing traditional telecom operators to provide the network capacity and data speeds required to unlock the Internet's true business potential.

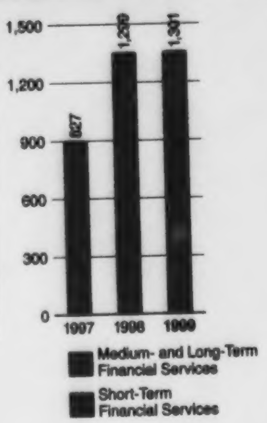
Canada's strengths in key Internet technologies such as fibre optics, high-capacity switching and broadband wireless access have positioned our exporters to prosper from this new economy. EDC's Telecom Team will continue to work closely with its clients to help them manage the risks that this new world entails.

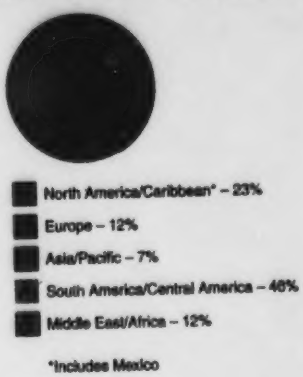
productivity

performance

"EDC's Oil and Gas Team provided both financing and insurance support for our international drilling business. The team consistently demonstrates timely service with a sound understanding of our business needs within the international market."

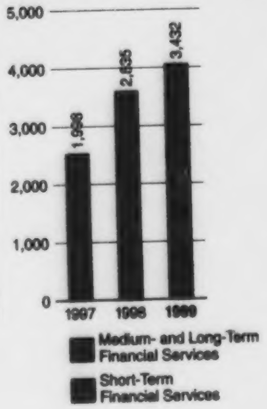
Dale E. Tremblay
Senior Vice President
Finance & Chief Financial Officer
Precision Drilling Corporation
Calgary, Alberta

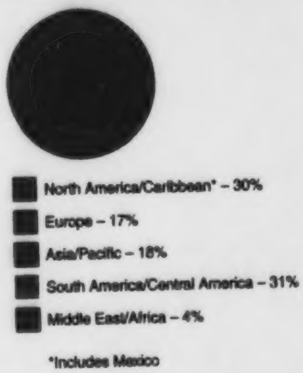


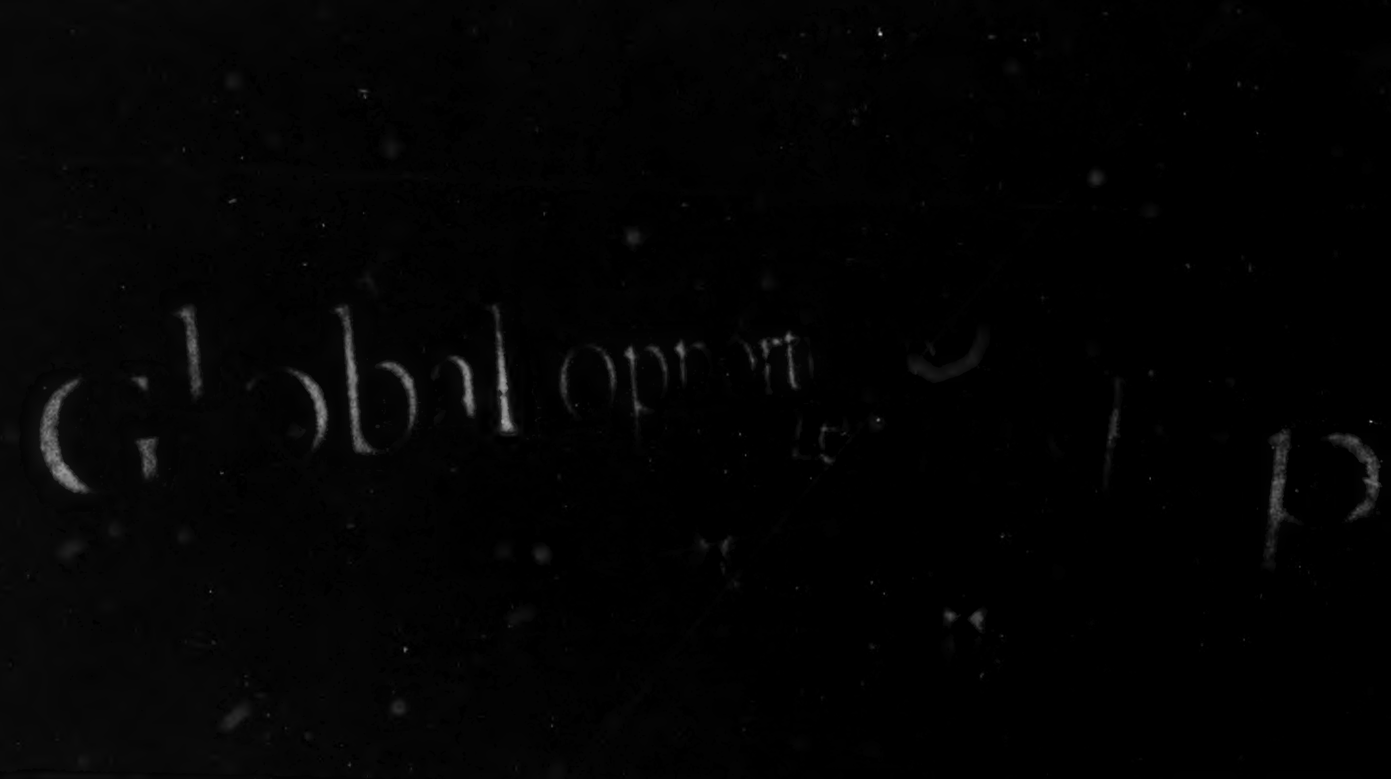


"A strong alliance with EDC's team provides us with access to extensive telecommunications financing experience, flexibility and timely and innovative risk management solutions. They have been instrumental to our export success."

W. Ronald Couchman
President and CEO
SR Telecom Inc.
Saint-Laurent, Quebec
(former Canada Export Award winner – Lifetime Achievement)







Eric Siegel
Executive Vice-President, Medium- and Long-Term Financial Services

A. Ian Gillespie
President and Chief Executive Officer

Rolfe Cooke
Senior Vice-President, Short-Term Financial Services

Gilles Ross
Senior Vice-President, Legal Services and Secretary

Peter Allen
Senior Vice-President and Chief Financial Officer

Manage [illegible]

Jim Brockbank
Risk Management Office

Jim Christie
Western Region

Jim Curley
Credit Surveillance and Analysis

Don Curtis
Industrial Equipment

Christine Dennison
Human Resources

June Domokos
International Markets

Peter Foran
Information Technologies

Ruth Fothergill
Ontario Region

John Gagan
Corporate Finance and Control

Pierre Gignac
Claims and Insurance Accounting

Peter Hepburn
Structured Finance

Glen Hodgson
Government and International Relations

John Hutchison
SME Services

Harry Kaunisviita
Corporate Business Systems

Louise Landry
Corporate Performance and Communications

Marc Leduc
Legal Services

Marie MacDougall
Capital Markets

Tom Martin
Financial Planning and Systems

Mike McLean
International Markets

Keith Milloy
Short-Term Insurance

Mike Neals
Marketing

Sherry Noble
Engineering and Professional Services

Kevin O'Brien
Transportation

Brian Pearce
Internal Audit and Evaluation

Stephen Poloz
Economics

Ed Simac
Information Systems

Henri Souquières
Quebec and Atlantic Region

1999 Financial Review

Management's Discussion and Analysis

Operating Highlights 26
Risk Management 32
Financial Reporting Responsibility 48
Auditor's Report 49

Consolidated Financial Statements

Consolidated Balance Sheet 50
Consolidated Statement of Income and Retained Earnings 51
Consolidated Statement of Cash Flows 52
Notes to the Consolidated Financial Statements 53
Five-Year Review 68

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operating Highlights

Income Statement Discussion

Net Income

Net income reported for 1999 was $118 million, a decrease of $17 million over the 1998 level of $135 million. Despite this decrease in net income, net operating income increased by $73 million to $641 million for 1999. Strong loan asset growth, reclassification of Peruvian sovereign loans to performing from impaired, and higher insured volumes fueled the 1999 increase. This increase was offset by a higher provision for credit losses to provide for the increased impairment in the commercial portfolio mainly due to the outcome of economic events affecting Asia, Russia and Latin America. In addition, administrative expenses were higher primarily as a result of increased human resources, technology and occupancy costs due to the higher volumes of business. As well, administrative expenses increased in 1999 due to the costs associated with Year 2000 readiness.

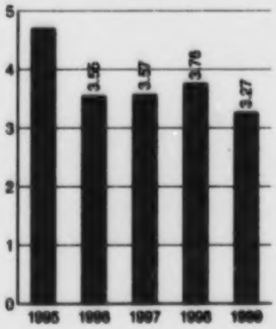
The following table outlines net income and return on shareholder's equity over the last five years:

($ in millions)	1999	1998	1997	1996	1995
Net income	118	135	128	112	44
Shareholder's equity	[illegible]	1,680	1,545	1,417	1,173
Return (%) on shareholder's equity	[illegible]	8.0%	8.3%	7.9%	3.8%

Net Interest Income

The 1999 net margin of 3.27%, which is net income expressed as a percentage of average performing assets employed, decreased by 49 basis points from the 1998 level of 3.76%. Loan and investment prepayments resulted in accelerated investment and fee revenue in 1998 of $34 million and a shift in foreign exchange translation from a gain of $13 million in 1998 to a loss of $12 million in 1999, which accounted for 65% or 32 basis points of this decrease. Increased liquidity in preparation for Y2K caused a further decline of 15 basis points as cash, marketable securities and investments increased by 45% without a corresponding increase in net interest income. The unusually high net margin in 1995 resulted from $127 million of receipts for impaired loans which increased income and the net margin by 1.44% to 4.70%. This practice changed in 1996 when the Corporation introduced its accounting policy for impaired loans.

Net Margin
(%)



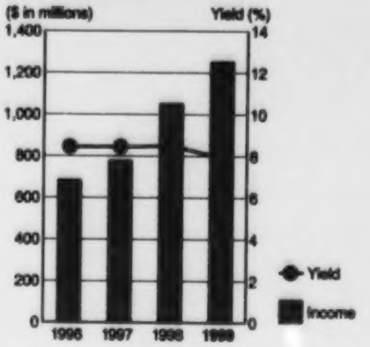
The following table shows both the net interest income, as reported in the financial statements, and adjusted net interest income:

($ in millions)	1999	1998	1997	1996	1995
Average gross loans receivable	[illegible]	14,286	11,129	10,073	9,803
Average cash, marketable securities and investments	[illegible]	1,908	1,759	1,701	1,269
Less: average impaired loans	[illegible]	1,861	1,869	1,919	2,247
Total average assets employed	[illegible]	14,333	11,019	9,855	8,825
Interest income:					
Loans	[illegible]	1,055	782	688	813
Marketable securities and investments	[illegible]	126	92	99	87
Total interest income	[illegible]	1,181	874	787	900
Interest expense	[illegible]	642	481	437	485
Net interest income	[illegible]	539	393	350	415
Net margin	3.27%	3.76%	3.57%	3.56%	4.70%

Interest Income – Loans

For 1999, loan interest income was $1,258 million, an increase of $203 million or 19% from the level of $1,055 in 1998. The performing gross loans receivable averaged $15,863 million in 1999 (1998 – $12,425 million) with an average rate of 7.93% (1998 – 8.49%). The growth in performing loans of $3,438 million or 28% over 1998 was mainly caused by record disbursements in 1999 of $6,374 million, while repayments were $3,380 million. As well, Peru sovereign loans of $647 million were reclassified to performing from impaired in May of 1999.

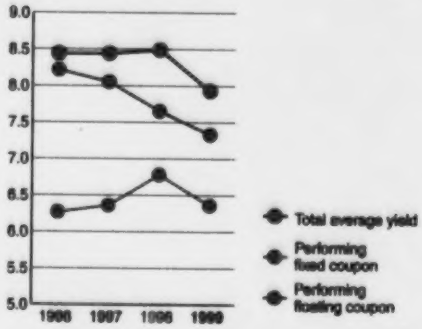
Interest Income – Loans



Components of change in interest income – loans from prior year

($ in millions)	
Volume increases	247
Rate decrease	(50)
Increase in other loan interest	10
Foreign exchange impact	(4)
Net change in interest income – loans	$203

Loan Interest Yield
(%)



Performing fixed rate loans receivable averaged $7,005 million in 1999 (1998 – $ 5,906 million) with an average coupon yield of 7.35% (1998 – 7.65%) earning interest of $515 million (1998 – $452 million). The coupon on performing fixed rate loans receivable continued to decline in 1999, as it has since 1996. This was due to the replacement of older loans earning higher interest rates reflective of previous periods, with current loan signings which carry lower interest rates. New fixed rate loans signed in 1999 yielded 7.38% which is slightly above the 1999 average coupon yield.

The performing floating rate loans receivable averaged $8,858 million in 1999 (1998 – $6,519 million) with an average coupon rate of 6.46% (1998 – 6.78%) earning interest of $572 million (1998 – $442 million). U.S. dollar LIBOR averaged 5.75% in 1999, a decline of 38 basis points over the 1998 average. The U.S. dollar LIBOR decline reduced floating rate interest income accordingly and led to lower yields on the floating rate loans portfolio.

The following table analyzes loan interest income as a percentage of the average loans receivable:

($ in millions)	1999	1998	1997	1996
Gross loans receivable:				
Average performing fixed rate	7,005	5,906	4,685	4,281
Average performing floating rate	8,858	6,519	4,575	3,873
Average performing gross loans receivable	15,863	12,425	9,260	8,154
Interest income – loans:				
Performing fixed rate interest	515	452	377	352
Performing floating rate interest	572	442	291	243
Other loan interest	171	161	114	93
Total interest income – loans	$1,258	$1,055	$782	$688
Yields – performing loans:				
Performing fixed rate coupon	7.35%	7.65%	8.05%	8.22%
Performing floating rate coupon	6.46%	6.78%	6.36%	6.27%
Total loan interest yield	7.93%	8.49%	8.44%	8.44%

operating Highlights

Income Statement Discussion

Net Income

Net income reported for 1999 was $118 million, a decrease of $17 million over the 1998 level of $135 million. Despite this decrease in net income, net operating income increased by $73 million to $641 million for 1999. Strong loan asset growth, reclassification of Peruvian sovereign loans to performing from impaired, and higher insured volumes fueled the 1999 increase. This increase was offset by a higher provision for credit losses to provide for the increased impairment in the commercial portfolio mainly due to the outcome of economic events affecting Asia, Russia and Latin America. In addition, administrative expenses were higher primarily as a result of increased human resources, technology and occupancy costs due to the higher volumes of business. As well, administrative expenses increased in 1999 due to the costs associated with Year 2000 readiness.

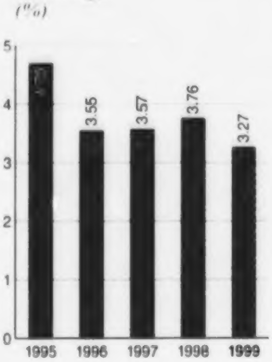
The following table outlines net income and return on shareholder's equity over the last five years:

($ in millions)	**1999**	1998	1997	1996	1995
Net income	**118**	135	128	112	44
Shareholder's equity	**1,798**	1,680	1,545	1,417	1,173
Return (%) on shareholder's equity	**6.6%**	8.0%	8.3%	7.9%	3.8%

Net Interest Income

The 1999 net margin of 3.27%, which is net income expressed as a percentage of average performing assets employed, decreased by 49 basis points from the 1998 level of 3.76%. Loan and investment prepayments resulted in accelerated investment and fee revenue in 1998 of $34 million and a shift in foreign exchange translation from a gain of $13 million in 1998 to a loss of $12 million in 1999, which accounted for 65% or 32 basis points of this decrease. Increased liquidity in preparation for Y2K caused a further decline of 15 basis points as cash, marketable securities and investments increased by 45% without a corresponding increase in net interest income. The unusually high net margin in 1995 resulted from $127 million of receipts for impaired loans which increased income and the net margin by 1.44% to 4.70%. This practice changed in 1996 when the Corporation introduced its accounting policy for impaired loans.

Net Margin
(%)



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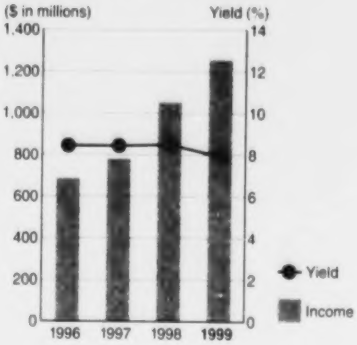
($ in millions)	**1999**	1998	1997	1996	1995
Average gross loans receivable	**17,331**	14,286	11,129	10,073	9,803
Average cash, marketable securities and investments	**2,758**	1,908	1,759	1,701	1,269
Less: average impaired loans	**1,468**	1,861	1,869	1,919	2,247
Total average assets employed	**18,621**	14,333	11,019	9,855	8,825
Interest income:					
Loans	**1,258**	1,055	782	688	813
Marketable securities and investments	**146**	126	92	99	87
Total interest income	**1,404**	1,181	874	787	900
Interest expense	**796**	642	481	437	485
Net interest income	**608**	539	393	350	415
Net margin	**3.27%**	3.76%	3.57%	3.55%	4.70%

Interest Income – Loans

For 1999, loan interest income was $1,258 million, an increase of $203 million or 19% from the level of $1,055 in 1998. The performing gross loans receivable averaged $15,863 million in 1999 (1998 – $12,425 million) with an average rate of 7.93% (1998 – 8.49%). The growth in performing loans of $3,438 million or 28% over 1998 was mainly caused by record disbursements in 1999 of $6,374 million, while repayments were $3,380 million. As well, Peru sovereign loans of $647 million were reclassified to performing from impaired in May of 1999.

Interest Income – Loans



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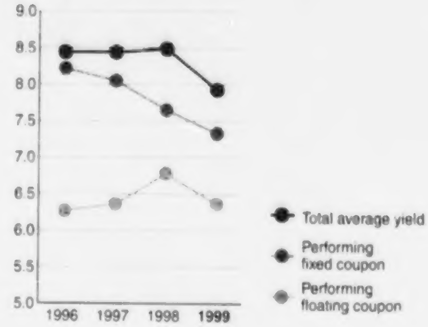

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Performing floating rate coupon	**6.46%**	6.78%	6.36%	6.27%
Total loan interest yield	**7.93%**	8.49%	8.44%	8.44%

Other loan interest income comprises loan fee income and non-accrued capitalized interest (NACI) income. Total loan fee income was $96 million in 1999, compared to $113 million in 1998, a decrease of $17 million. In 1998, loan prepayments caused an increase in fee income of $21 million, which did not occur in 1999. NACI revenue was $69 million in 1999, $21 million higher than in 1998. This increase is due to the amortization of NACI as income for sovereign loans in Peru, which were reclassified to performing from impaired. Cash receipts from impaired loans increased other loan interest income in 1999 by $6 million.

Interest Income – Marketable Securities and Investments

Marketable securities and investment income increased by $20 million between 1998 and 1999. The net impact of higher overall investment volumes and a decrease in the general level of interest rates account for this change.

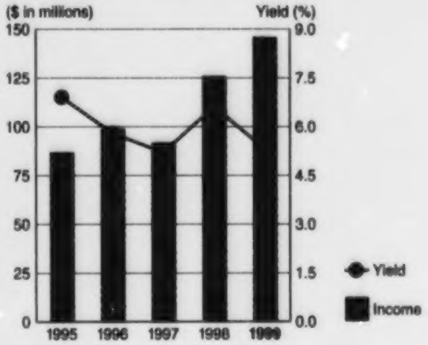
Average investment balances increased from $1,908 million in 1998 to $2,758 million in 1999. During the latter part of the year, EDC implemented a strategy to increase investments to ensure that the Corporation would have sufficient liquidity to support its financial operations through the critical Y2K period.

Components of change in interest income – marketable securities and investments from prior year

($ in millions)

Volume increases	57
Rate decrease	(37)
Net change in interest income – marketable securities and investments	$20

Marketable Securities and Investment Interest Income



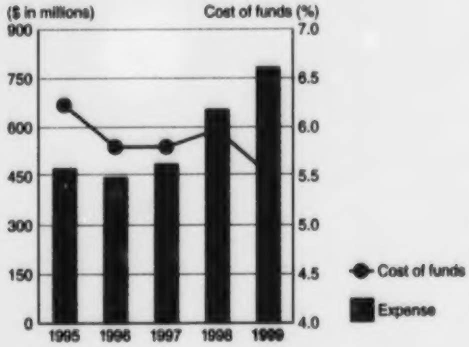
Investment yields decreased from 6.62% in 1998 to 5.29% in 1999. This reflects the fact that interest rates in Canada and the United States were at higher levels during most of 1998 relative to 1999. The Federal Reserve Bank and the Bank of Canada began an easing trend during the latter part of 1998, which lasted most of 1999. The higher yield in 1998 also reflects the early retirement of one investment where the settlement amount included, in addition to principal, an amount of $13 million. This represented interest that would have accrued had the investment remained outstanding until maturity.

Interest Expense

Interest expense increased by $154 million between 1998 and 1999. Three factors account for this change: an increase in overall debt volume, a decrease in the general level of interest rates, and the impact of changes in foreign exchange rates on the translation of foreign currency balances.

The increase is primarily the result of higher borrowing requirements necessary to support elevated lending volumes and investment levels. The average balance of short-term debt increased from $2,979 million in 1998 to $3,429 million in 1999. The average balance of long-term debt also increased from $7,994 million in 1998 to $10,765 million in 1999.

Interest Expense
(Excluding Foreign Exchange Translation Gain/Loss)



Components of change in interest expense from prior year

($ in millions)	
Volume increases	180
Rate decrease	(49)
Foreign exchange impact on interest expense	(2)
Net change prior to foreign currency translation loss	129
Change in the Corporation's foreign currency translation loss	25
Net change in interest expense	$154

Levels of interest rates both in Canada and the United States were lower in 1999, relative to 1998. This was reflected in the cost of funds, which decreased from 5.97% in 1998, to 5.52% in 1999.

A strengthening of the Canadian dollar during 1999 also helped to reduce interest expense on foreign currency denominated debt by $2 million.

Interest expense, as reported on the income statement, includes the Corporation's foreign exchange translation gain/loss for the year. Included in interest expense for 1999 is a translation loss of $12 million (1998 – $13 million gain).

Insurance Premiums and Guarantee Fees

The following table analyzes the average premium rate for insurance premiums and guarantee fees:

($ in millions)	1999		1998	
	$	%	$	%
Short-term program:				
Insured volumes	27,625		23,990	
Premiums and fees received	93		80	
Average short-term premium rate		0.34		0.33
Medium-term program:				
New insurance policies outstanding	2,965		2,160	
Premiums and fees received	36		28	
Average medium-term premium rate		1.21		1.30
Loan guarantees				
Loan guarantees average exposure	1,795		826	
Loan guarantee fees earned	8		6	
Average loan guarantees fee rate		0.45		0.73

Short-term insurance premium receipts contributed $93 million, or 72% of 1999 premium receipts, an increase of 16% over 1998. This was the direct result of the growth in short-term insurance volumes, which increased by $3,635 million, or 15% over 1998.

The medium-term premium receipts for the year totaled $36 million, an increase of 29% over 1998. New policies outstanding in the medium-term programs increased by $805 million, or 37% over 1998. This increase was primarily due to the growth in both the performance security and surety bond programs, which increased by $454 million and $280 million from 1998 levels. The growth in the surety bond program, which carries a lower average premium rate, was the principal driver for the decrease in the average premium rate within the medium-term programs for 1999. The decrease in the average loan guarantee fee rate despite an increase in the average loan guarantee exposure to $1,795 million or 117% over 1998 was driven primarily by the signing of a large guarantee with a high investment grade counterparty.

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Provision for Credit Losses

The following table analyzes the expense for the provision for credit losses over the last five years:

($ in millions)	**1999**	1998	1997	1996	1995
Provision for credit losses pertaining to:					
Loans	**397**	313	184	190	327
Insurance	**133**	88	59	68	49
Loan guarantees	**(7)**	32	52	12	14
Total provision for credit losses	**$523**	$433	$295	$270	$390

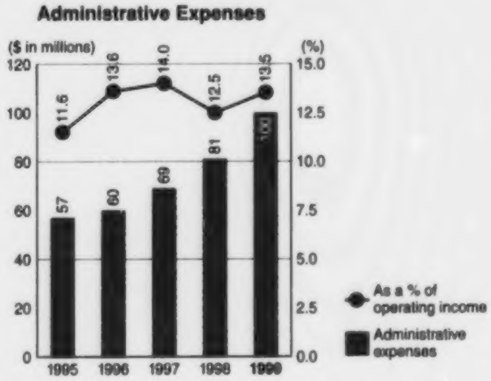
In 1999, a provision charge for losses on loans was made to the income statement in the amount of $397 million (1998 – $313 million). Approximately $286 million (1998 – $276 million), or 72% (1998 – 88%), can be attributed to portfolio growth. The remainder resulted from impairment in the commercial portfolio and increased provisioning due to downgraded credit ratings. The portfolio growth occurred principally in the commercial sector, with substantial increases in speculative grade loans.

During the year, there was a $133 million charge to the income statement for the provision for insurance claims. The increase in current insurance claim provisioning levels was partly the result of the year-end actuarial allowance valuation based on continued growth in the insurance portfolio. Of the total provision for insurance claims, $82 million was due to the re-evaluation of recoverable claims that were written off in 1999 (1998 – $39 million).

A recovery of credit losses for loan guarantees of $7 million was made in 1999. This was the result of reductions on existing outstanding guarantees, coupled with slow growth in new signings.

Administrative Expenses

Net administrative expenses for 1999 totaled $100 million, an increase of 23% from the prior year. The additional administrative expenses were predominantly the result of head count growth. Consequently, expenditures for salaries, benefits, technology and occupancy were higher. Further contributing to the increase were the costs associated with Year 2000 readiness. Expressed as a percentage of operating income (efficiency ratio), administrative expenses increased to 13.5% in 1999, from 12.5% in 1998.



Corporate Plan Discussion

Comparison to 1999 Plan

Business volumes for 1999 reached a record $40.1 billion, an increase of 15% over the 1998 level of $34.8 billion, and exceeded the 1999 planned volume of $35.0 billion. This increase over plan can be attributed to each of the Corporation's programs. Medium-term insurance volumes surpassed plan by $3.0 billion, short-term insurance by $1.5 billion and financing by $0.6 billion.

The impact on the Corporation's balance sheet of past years increased loan signings volume generated a 12% increase in net loans receivable and a 17% increase in loans payable over the 1999 Plan. Loans payable increased to a greater extent than loan assets, since cash and investments were augmented by 28% over the plan to provide sufficient liquidity for the Y2K transition period.

The 1999 net income of $118 million fell short of the $160 million projected in the 1999 Corporate Plan. While net interest income and insurance premiums and guarantee fees exceeded planned amounts by $32 million as a result of higher than anticipated business volumes for 1999, these increases were offset by a $77 million increase in the provision for credit losses over Plan. The provision increased in excess of planned amounts due to the increased impairment in the commercial portfolio mainly due to the outcome of economic events affecting Asia, Russia and Latin America. Administrative expenses were below Plan by $3 million.

2000 Corporate Plan

The Corporate Plan projects the year 2000 business volume to reach $42.0 billion; however, revised estimates based on information available subsequent to the Plan's publication indicate that this will likely be exceeded and a more realistic target for 2000 is $45.0 billion. The loans receivable and loans payable balances are expected to increase as a result of loans signed in 2000 and the large amount of undisbursed loans with respect to signings from prior years.

The major planned income variances from the 1999 actual results are represented by higher net interest income, due to the planned increased loans and liquidity portfolios and increased insurance premiums and fees to reflect the planned growth in insurance volumes. This will be offset by increased provision for credit losses and administrative expenses. Provisions for credit losses are expected to be higher in 2000 due to additional provisions reflecting management's best estimates as a result of the Year 2000 impact on EDC's portfolio. Administrative expenses are expected to increase by $19 million in 2000, due primarily to a larger workforce and investments in technology.

	2000 Corporate Plan	**1999 Actual Results**	1999 Corporate Plan
Volume			
($ in billions)			
Financing	6.0	**6.1**	5.5
Medium-term insurance	5.5	**6.4**	3.4
Short-term insurance	30.5	**27.6**	26.1
Total	$42.0	**$40.1**	$35.0
Balance Sheet			
($ in millions)			
Assets			
Loans receivable	20,461	**17,168**	15,621
Allowance for losses on loans	2,738	**2,324**	2,337
Net loans receivable	17,723	**14,844**	13,284
Cash and investments	3,582	**3,398**	2,660
Accrued interest and other assets	485	**1,181**	379
Total Assets	$21,790	**$19,423**	$16,323
Liabilities and Shareholder's Equity			
Loans payable	18,732	**16,248**	13,924
Accrued interest and other liabilities	480	**893**	110
Allowance for claims on insurance and guarantees	686	**484**	434
Total Liabilities	19,898	**17,625**	14,468
Share capital	983	**983**	983
Retained earnings	909	**815**	872
Shareholder's Equity	1,892	**1,798**	1,855
Total Liabilities and Shareholder's Equity	$21,790	**$19,423**	$16,323
Income Statement			
($ in millions)			
Interest Income			
Loans	1,521	**1,258**	1,202
Marketable securities and investments	204	**146**	146
	1,725	**1,404**	1,348
Interest expense	1,038	**786**	763
Net interest income	687	**618**	585
Insurance premiums and guarantee fees	151	**133**	124
Provision for credit losses	645	**533**	446
Income after provision for credit losses	193	**218**	263
Administrative expenses	119	**100**	103
Net income	$74	**$118**	$160

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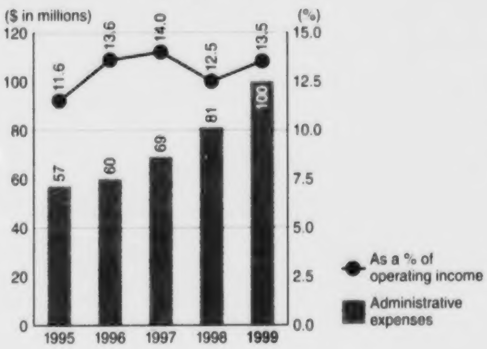

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Risk Management

Credit Risk

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. EDC is exposed to credit risk under its loans and insurance programs and treasury activities. The Corporation has risk management policies in place to help it continuously monitor these credit exposures.

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. EDC manages the market risk of its assets and liabilities on a portfolio basis. EDC has policies in place to limit its exposure to interest rate and foreign exchange movements.

EDC is in the business of providing exporters with tools that allow them to manage the risks they face while doing business internationally. In doing so, EDC is also in the business of taking risks and must therefore prudently manage these risks to ensure its long-term financial health.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet the Corporation's obligations. EDC has treasury risk management policies in place to ensure that sufficient liquidity is retained to meet operating requirements and to maintain stability in short-term borrowing programs.

Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies, procedures and an internal audit department in place to minimize the possibility of material losses as a result of operational risk.

Each of the above risks is discussed in greater detail in sequence on the following pages.

Credit Risk

Credit risk represents the most substantial risk of financial loss to EDC. As at December 31, 1999, EDC has $40.8 billion of exposure to credit risk as detailed on the following page. The Corporation is continuously reviewing its processes and systems in order to improve the administration and assessment of credit risk on all agreements associated with financing, insurance and treasury transactions. The Corporation is committed to ensuring that its origination and portfolio management policies and methodologies embody relevant "best in class" practices within the private sector and the public sector.

EDC manages the credit risk associated with its exposures at the portfolio level and the transaction level.

Portfolio Credit Risk Management

In 1999, EDC completed a comprehensive review and enhancement of its credit risk management practices culminating in the approval by the Board of Directors of a new credit risk management framework. The framework establishes the approval responsibilities of the Board of Directors, the oversight responsibilities of the Risk Management Committee of the Board of Directors, and the operational, approval and reporting responsibilities of Management. Among other things, the framework includes new and improved methodologies to determine country risk limits, industry risk limits and commercial obligor risk limits. All limits are determined based on the Corporation's capital base and risk factors associated with the exposure. The framework also provides for reporting of management transaction approvals, risk aggregations and compliance with the framework to the Board of Directors on a regular basis.

Country risk is continually reviewed by the Economics Department to take into consideration any changes in the world environment or the specific country. The Economics Department risk rates all countries, and all other things being equal, the higher the country risk, the lower the country limit.

Commercial obligor risk is regularly reviewed by the Corporation to take into consideration any changes that may affect the credit risk of the commercial obligor. The Corporation risk rates all commercial obligors, and all other things being equal, the higher the risk, the lower the commercial obligor risk limit.

Risk Management

Credit Risk

Credit risk is the [illegible] fails to meet its financial [illegible] to credit risk under its [illegible] treasury activities. The Co[illegible] policies in place to help [illegible] credit exposures.

[illegible]

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It is Management's responsibility to operate the Corporation's credit risk exposures within the limits established by the Board. Any exceptions to limits require specific Board approval.

Specific Transaction Risk Management

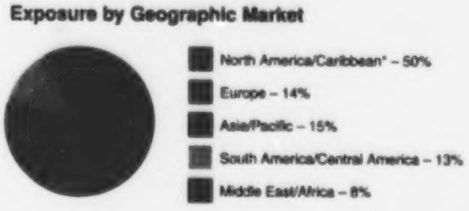
In order to better understand the credit risk associated with EDC's individual credit commitments, the Corporation is organized into business teams along industry sectors. The business teams are responsible for the proper due diligence associated with each credit commitment. Within the business team structure, each individual has a delegation of approval authority based on relevant expertise and experience. Every credit commitment (except for very small amounts) requires the approval of at least two individuals with delegated approval authority.

Significant potential transactions with respect to credit risk and structure are reviewed for endorsement by the Risk Management Office prior to authorization. The Risk Management Office reports to the Vice-President of Risk Management. Very significant transactions with respect to credit risk and structure are also reviewed for endorsement by the Executive Risk Management Committee. The Executive Risk Management Committee is comprised of the following six corporate officers: the President, the Executive Vice-President of Medium- and Long-Term Financial Services, the Chief Financial Officer and Senior Vice-President of Finance, the Senior Vice-President of Secretariat and Legal Services, the Senior Vice-President of Short-Term Financial Services, and the Vice-President of Risk Management. In addition, certain very significant transactions with respect to credit risk and structure require the approval of the Board of Directors.

The Corporation actively monitors and manages the credit risks associated with transactions post commitment to ensure that where there is a change in the risk the implications are assessed and managed. Where negative changes in risk have occurred, the transactions are downgraded, allowances adjusted and plans to mitigate potential losses put into place.

Concentration of Exposure

The following table reflects the major concentrations of total commercial and sovereign exposure in the geographic market and country where the risk resided for all operations at the end of 1999:



*Includes Mexico

Country	Loans Portfolio Gross Loans Receivable	Loans Portfolio Undisbursed Commitments	Insurance Policies and Guarantees Outstanding Short-Term	Insurance Policies and Guarantees Outstanding Medium-Term	Investments and Derivative Financial Instruments*	1999 Exposure	
($ in millions)						$	%
U.S.	4,885	1,275	2,821	1,367	813	11,161	27
Canada	1,502**	1,270**	1,036	1,102***	2,805	7,715	19
China	1,121	585	217	174	–	2,097	5
U.K.	872	480	141	182	–	1,675	4
Brazil	738	53	419	281	–	1,491	4
Mexico	713	188	279	21	–	1,201	3
Indonesia	896	53	20	207	–	1,176	3
Peru	741	242	48	103	–	1,134	3
Venezuela	609	149	43	19	–	820	2
Germany	174	33	157	23	341	728	2
Other ****	6,347	1,017	1,966	2,095	164	11,569	28
Total	$18,598	$5,345	$7,147	$5,574	$4,123	$40,787	100%

* *Investments include amounts represented by cash, marketable securities and investments.*

** *Includes the impact of one transaction signed in 1997 for $1,497 million with recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.*

*** *Includes $1,055 million of surety bond insurance. A total of 79% of the exports insured in the surety bond program are to the United States.*

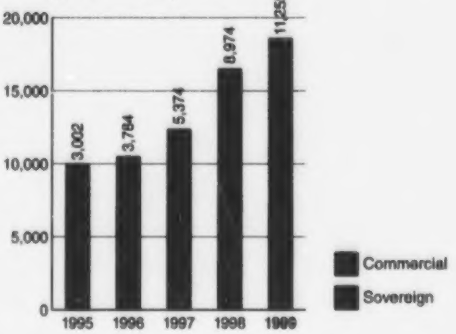
**** *Includes 122 countries with total exposure ranging from $1 million to $709 million.*

Concentration of Exposure – Loans Portfolio

Over the last four years, gross loans receivable has increased at an average yearly rate of 18%, moving from $9,910 million in 1995 to $18,598 million in 1999. This increase is due to the continued record growth in commercial loans from $3,002 million in 1995 to $11,255 million in 1999. Over the last four years, commercial loans have increased by an average yearly rate of 40%, while sovereign loans have increased at a much slower average yearly rate of 1.3%.

The mix between commercial and sovereign loans has continued to shift in favour of commercial loans. In 1995, the commercial to sovereign mix was 30% to 70%, while in 1999, it is 61% to 39%. In 1999, new signing volume to commercial borrowers accounted for 90% of total signing volume.

Gross Loans Receivable
($ in millions)

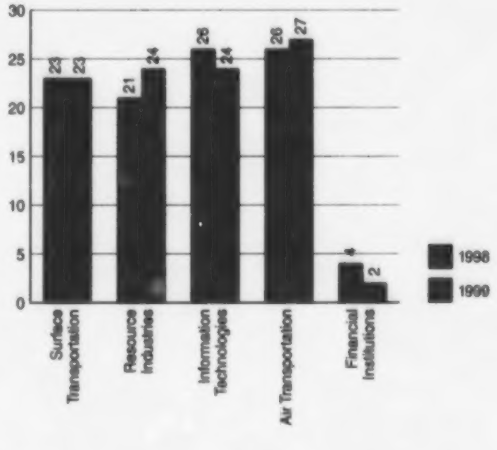


Performing Commercial Loans

As depicted, the commercial exposure in terms of industry sector mix has remained relatively unchanged, as compared to that of 1998.

Five counterparties comprising the Corporation's largest commercial exposure balances collectively represent $4,259 million or 30% of the total performing commercial exposure. Of these five, two are within the Surface Transportation sector, comprising $2,385 million, or 17%. Two counterparties are within the Air Transportation sector, comprising the remaining $1,226 or 9%. The remaining counterparty is within the Information Technologies sector, comprising $648 million, or 4%.

Performing Commercial Loans
(%)



	Gross Receivable	Undisbursed Commitments	Total Exposure	1999	Gross Receivable	Undisbursed Commitments	Total Exposure	1998
($ in millions)			$	%			$	%
Surface Transportation	2,411	851	3,262	23	1,776	1,000	2,776	23
Resource Industries	2,398	982	3,380	24	1,554	954	2,508	21
Information Technologies	2,565	821	3,386	24	2,242	927	3,169	26
Air Transportation	3,326	536	3,862	27	2,885	226	3,111	26
Financial Institutions	307	11	318	2	372	46	418	4
Total	$11,007	$3,201	$14,208	100%	$8,829	$3,153	$11,982	100%

Performing Sovereign Loans

The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

	Gross Receivable	Undisbursed Commitments	Total Exposure	1999		Gross Receivable	Undisbursed Commitments	Total Exposure	1998
($ in millions)			$	%				$	%
China	1,113	564	1,677	20	China	1,221	743	1,964	23
Canada	655	896	1,551	19	Canada	424	1,130	1,554	18
Peru	625	–	625	7	Venezuela	438	282	720	9
Venezuela	473	122	595	7	Algeria	523	96	619	7
Algeria	527	28	555	7	Indonesia	488	96	584	7
Other	2,890	489	3,379	40	Other	2,672	313	2,985	36
Total	$6,283	$2,099	$8,382	100%	Total	$5,766	$2,660	$8,426	100%

The sovereign portfolio as a whole has decreased from 1998 by 1%. Peru has entered within the top five sovereign exposures due to reclassification from impaired to performing status during 1999.

The global shift from public sector financing to private sector is demonstrated in the minimal increase in the Corporation's sovereign loan portfolio. In 1999, 10% of signing volume was to sovereign borrowers as compared to 8% in 1998.

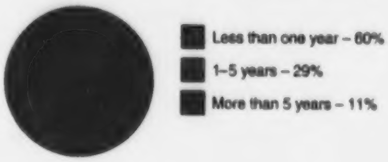
Concentration of Exposure – Insurance Portfolio

Insurance Policies and Guarantees Outstanding

($ in millions)	1999	1998
Short-term	7,147	6,850
Medium-term	5,574	4,944
Total	$12,721	$11,794

At December 31, 1999, the concentration by policy term has remained relatively unchanged from 1998 levels.

Insurance Policies and Loan Guarantees Outstanding by Policy Term



Short-Term Program

Size Concentration

During 1999, the short-term program supported 4,142 customers. In terms of total insured volume, the top five customers represented 14% of the total 1999 insured volume (1998 – 20%). The largest number of buyers in terms of aggregate credit authorizations is within the $1,000 to $500,000 range and has remained relatively unchanged from 1998 levels in terms of overall concentration.

The following table shows the number of buyers and total exposure for the year, classified by exposure size within the short-term portfolio:

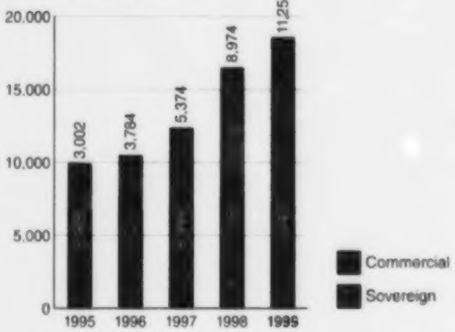
	1999		1998	
$ Value of Exposure *($ in thousands)*	Total Number of Buyers	Exposure ($ in millions)	Total Number of Buyers	Exposure ($ in millions)
1–500	41,650	4,624	38,572	4,029
501–2,000	3,957	3,748	3,700	3,591
2,001–5,000	987	2,995	949	2,978
5,001–10,000	236	2,293	316	2,267
10,001 and over	237	5,688	258	5,359
Total	46,877	$19,338	43,795	$18,224

Concentration of Exposure – Loans Portfolio

Over the last four years, gross loans receivable has increased at an average yearly rate of 18%, moving from $9,910 million in 1995 to $18,598 million in 1999. This increase is due to the continued record growth in commercial loans from $3,002 million in 1995 to $11,255 million in 1999. Over the last four years, commercial loans have increased by an average yearly rate of 40%, while sovereign loans have increased at a much slower average yearly rate of 1.3%.

The mix between commercial and sovereign loans has continued to shift in favour of commercial loans. In 1995, the commercial to sovereign mix was 30% to 70%, while in 1999, it is 61% to 39%. In 1999, new signing volume to commercial borrowers accounted for 90% of total signing volume.

Gross Loans Receivable
($ in millions)



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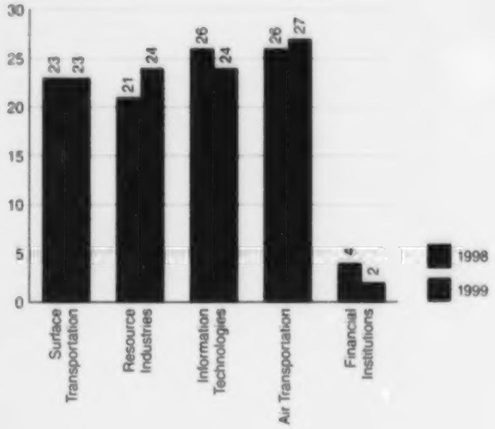
Performing Commercial Loans
(%)



	Gross Receivable	**Undisbursed Commitments**	**Total Exposure**	**1999**	Gross Receivable	Undisbursed Commitments	Total Exposure	1998
($ in millions)			**$**	**%**			$	%
Surface Transportation	**2,411**	**851**	**3,262**	**23**	1,776	1,000	2,776	23
Resource Industries	**2,398**	**982**	**3,380**	**24**	1,554	954	2,508	21
Information Technologies	**2,565**	**831**	**3,396**	**24**	2,242	927	3,169	26
Air Transportation	**3,326**	**526**	**3,852**	**27**	2,885	226	3,111	26
Financial Institutions	**307**	**11**	**318**	**2**	372	46	418	4
Total	**$11,007**	**$3,201**	**$14,208**	**100%**	$8,829	$3,153	$11,982	100%

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The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

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Peru	**625**	**–**	**625**	**7**	Venezuela	438	282	720	9
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Total	**$6,283**	**$2,099**	**$8,382**	**100%**	Total	$5,766	$2,660	$8,426	100%

The sovereign portfolio as a whole has decreased from 1998 by 1%. Peru has entered within the top five sovereign exposures due to reclassification from impaired to performing status during 1999.

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Concentration of Exposure – Insurance Portfolio

Insurance Policies and Guarantees Outstanding

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Short-term	**7,147**	6,850
Medium-term	**5,574**	4,944
Total	**$12,721**	$11,794

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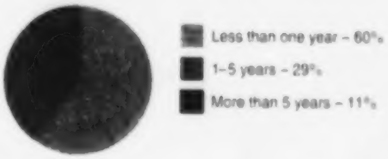

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The following table shows the number of buyers and total exposure for the year, classified by exposure size within the short-term portfolio:

	1999		1998	
$ Value of Exposure *($ in thousands)*	**Total Number of Buyers**	**Exposure ($ in millions)**	Total Number of Buyers	Exposure ($ in millions)
1–500	**41,050**	**4,624**	38,572	4,029
501–2,000	**3,957**	**3,746**	3,700	3,591
2,001–5,000	**987**	**2,985**	949	2,978
5,001–10,000	**326**	**2,293**	316	2,267
10,001 and over	**257**	**5,688**	258	5,359
Total	**46,577**	**$19,336**	43,795	$18,224

Country Concentration

The largest concentrations within the short-term program are in the following countries:

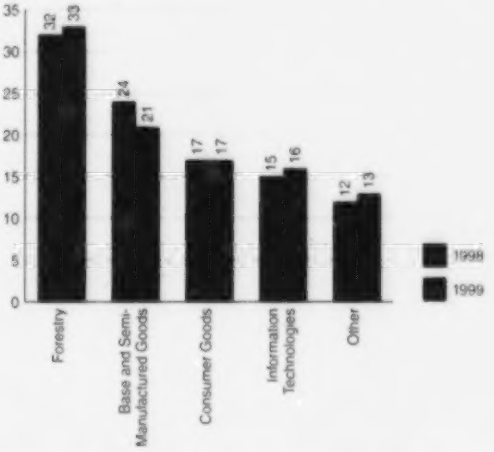
($ in millions)	1999			1998	
	$	**%**		$	%
U.S.	**2,821**	**39**	U.S.	2,538	37
Canada	**1,036**	**15**	Canada	1,024	15
Brazil	**419**	**6**	Brazil	353	5
Mexico	**279**	**4**	Japan	289	4
Iran	**243**	**3**	Mexico	278	4
Other*	**2,349**	**33**	Other*	2,368	35
Total	**$7,147**	**100%**	Total	$6,850	100%

* *Includes 140 countries with concentrations ranging from $.001 million to $233 million (1998 – 149 countries ranging from $.001 million to $226 million).*

Industry Concentration

The insurance policies outstanding in terms of industry concentration are as follows:

Insurance Policies Outstanding by Industry Sector
(%)



Medium-Term Insurance Program and Guarantees

Size Concentration

During 1999, 378 customers were supported in the medium-term program (1998 – 383). The top five customers in terms of insurance policies and guarantees outstanding represented 60% of the 1999 medium-term insurance policies and guarantees outstanding (1998 – 62%). The largest exposure within the top five customers is $2,276 million. The five largest policies and loan guarantees as at December 31, 1999, represent 32% (1998 – 38%) of the total medium-term policies and guarantees outstanding.

Country Concentration

As at December 31, 1999, the medium-term insurance policies and guarantees outstanding portfolio comprised 1,582 transactions in 124 countries (1998 – 1,442 transactions in 112 countries), with an average exposure of $3.5 million (1998 – $3.4 million).

The largest insurance policies and guarantees outstanding in terms of where the risk resides within the medium-term portfolio are in the following countries:

($ in millions)	1999			1998	
	$	**%**		$	%
U.S.	**1,367**	**24**	U.S.	1,377	28
Canada	**1,102**	**20**	Canada	674	14
Brazil	**281**	**5**	Colombia	303	6
Colombia	**215**	**4**	Brazil	301	6
Israel	**214**	**4**	Turkey	256	5
Other*	**2,395**	**43**	Other*	2,033	41
Total	**$5,574**	**100%**	Total	$4,944	100%

* *Includes 113 countries with concentrations ranging from $.012 million to $207 million (1998 – 105 countries ranging from $.002 million to $223 million).*

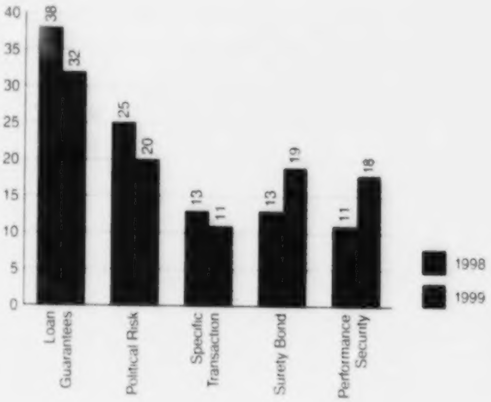
Of the total concentration in the United States, $1,298 million (95%) represents guarantees to support loan agreements. Exposure in Canada is made up largely ($1,055 million) of surety bond insurance (1998 – $659 million), 79% of which is to support exports to the United States (1998 – 86%).

Program Concentration

Performance security and surety bond exposures have increased by $474 million and $396 million over 1998 results. There was an 8% decrease in exposure in the political risk program, however volumes in this program have increased by 40% over 1998. The decrease in exposure is the result of an increase in the business assumed by reinsurers and co-insurers.

Concentration by Program

(%)



Credit Quality

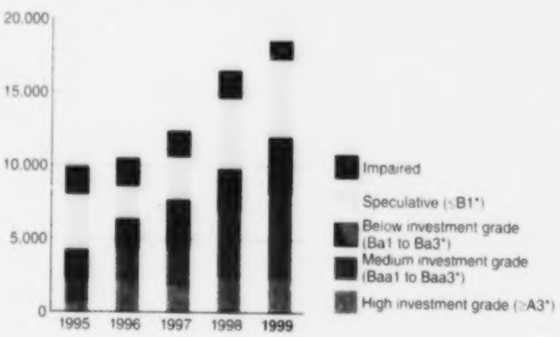
Credit Quality – Loans

The performing gross loans receivable grew by 18% in 1999 to $17,290 million from the 1998 level of $14,595 million. The major factor contributing to this increase is the continued record growth in commercial signing volume, with sovereign signings remaining close to 1998 levels. Risk concentration remains comparable to 1998, with above-average growth in speculative grade financing.

Impaired loans as a percentage of total gross loans receivable declined from 12% in 1998 to 7% in 1999. In 1999, five loans were reclassified as impaired: three commercial totaling $105 million and two sovereign for $56 million. Sovereign loans to Peru in the amount of $647 million were reclassified as performing. No loans were written off in 1999 and 1998.

Gross Loans Receivable

($ in millions)



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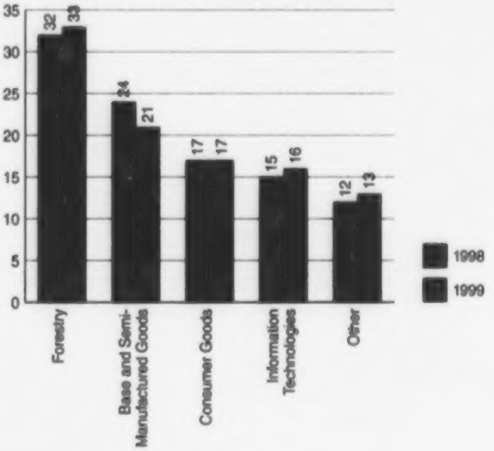

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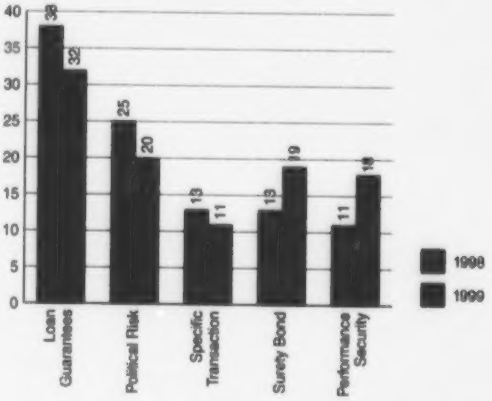
Concentration by Program
(%)



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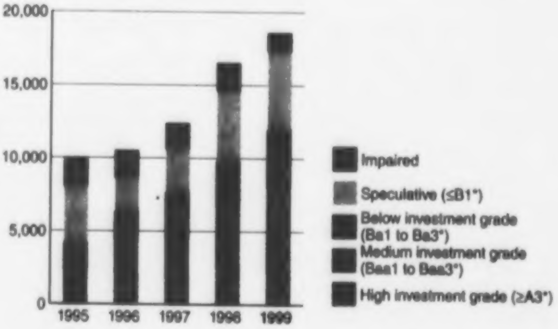
Gross Loans Receivable
($ in millions)



* *Moody's long-term rating*

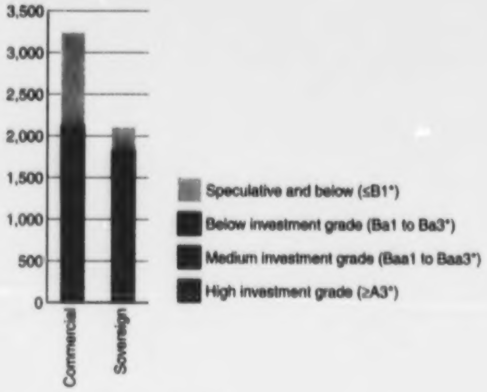
Loan Commitments

The speculative grade category (≤B1) comprising 34% of the total commercial undisbursed commitments has increased from 27% in 1998. Conversely, the high investment grade category (≥A3) has the smallest balance of undisbursed loans at $509 million or 16%, down from 37% in 1998. This is the result of the downgrading of one counterparty with large undisbursed commitments from A to Baa in 1999.

In the sovereign portfolio, the mix between investment grades is the reverse. The speculative grade category (≤B1) has the smallest balance, comprising 13%, down from 23% in 1998. The high investment grade category (≥A3) has the largest balance of undisbursed loans at $904 million or 43%, unchanged from 1998.

The following table profiles the committed undisbursed loan balances by credit-rating grade:

Loan Commitments
($ in millions)



* *Moody's long-term rating*

($ in millions)					1999		1998	
Provision category*	Commercial	%	Sovereign	%	Total	%	Total	%
High investment grade (≥A3)	509	16	904	43	1,413	26	2,301	40
Medium investment grade (Baa1 to Baa3)	739	23	567	27	1,306	25	1,060	18
Below investment grade (Ba1 to Ba3)	884	27	360	17	1,244	23	988	17
Speculative and below (≤B1)	1,107	34	275	13	1,382	26	1,464	25
Total	$3,239	100%	$2,106	100%	$5,345	100%	$5,813	100%

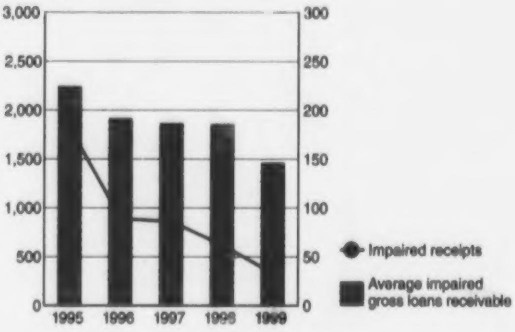
* *Moody's long-term rating*

Impaired Loans

In May 1999, Peru's outstanding sovereign portfolio of $647 million was restored to performing status as a result of a consistent pattern of payments being received over the last several years. As a result of Peru's change in status, cash flow as a percentage of average impaired gross loans receivable has declined.

As well, three commercial loans totaling $105 million and loans to Honduras ($28 million) and Pakistan ($28 million) were classified as impaired during the year. The three impaired commercial loans are reflective of the growth incurred in the commercial sector over the past several years and have been valued at their estimated net realizable value. The loans to two sovereigns have been valued at the net present value of expected cash flows in accordance with the sovereign loan allowance policy.

Impaired Receipts to Average Gross Loans Receivable
($ in millions)



($ in millions)	1999	1998	1997	1996	1995
Average impaired gross loans receivable	1,468	1,861	1,869	1,919	2,247
Impaired receipts (principal and interest)	33	62	86	89	182
Cash flow as a percentage of average receivable	2.25%	3.33%	4.60%	4.64%	8.10%

Payments received from the Government of Canada for debt relief for sovereign impaired loans totaled $59 million in 1999 (1998 – $97 million). These payments related to impaired loans in Côte d'Ivoire ($24 million), Cameroon ($19 million), Bosnia-Herzegovina ($10 million) and Senegal ($6 million). These amounts are not included as receipts from borrower countries in the chart on the previous page.

The following cash flows pertain to impaired loan debtors and represent to a large extent the long-term efforts of multilateral rescheduling arrangements through the Paris Club. The largest receipts for impaired loans including contractual principal and interest from borrowers were as noted:

($ in millions)	1999		1998
Cameroon	13	Peru	37
Peru (impaired status only)	7	Cameroon	12
Venezuela	7	Russia	6
Other	6	Other	7
Total	$33	Total	$62

Credit Quality – Insurance

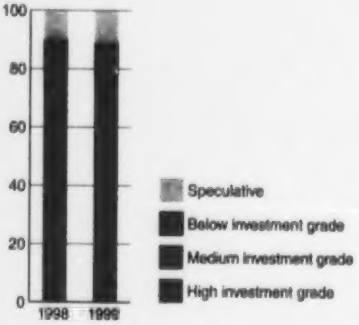
The Corporation rates country risk on a scale from 1 to 4 (high investment grade to speculative grade).

Short-Term

Within the short-term programs, the comparative spread of risk in terms of country risk classification has remained relatively unchanged from 1998 levels. The largest balance of short-term contingent liabilities is within category 1 countries, which represent $5,196 million, or 73% of total short-term contingent liabilities.

Insurance Policies Outstanding – Short-Term

(%)



Medium-Term

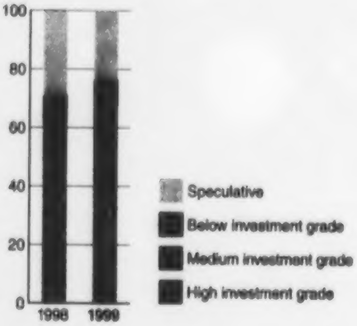
Within the medium-term programs, there was a 7% increase in high investment grade concentration in 1999, when compared with 1998 levels, as well as a 5% decrease in speculative grade concentration in 1999 over 1998 concentrations.

The increase in high investment grade concentration in 1999 was partly the result of an overall increase of 6% in exposure in Canada, due to the increased use of surety bond insurance. As well, concentration of exposure in Israel increased by 4% or $213 million over 1998 levels.

The decrease in speculative grade concentration in 1999 within the medium-term programs was largely the result of decreased concentrations in Brazil, Turkey, Kyrgyzstan and Algeria, as well as an upgrade of Peru from speculative grade in 1998 to below investment grade in 1999.

Insurance Policies Outstanding – Medium-Term

(%)



Loan Commitments

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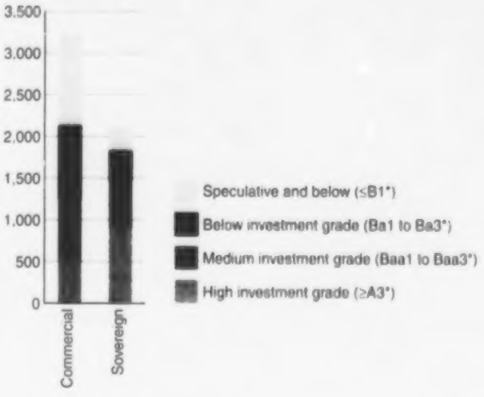

* *Moody's long-term rating*

($ in millions)					1999		1998	
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High investment grade (≥A3)	**509**	**16**	**904**	**43**	**1,413**	**26**	2,301	40
Medium investment grade (Baa1 to Baa3)	**739**	**23**	**567**	**27**	**1,306**	**25**	1,060	18
Below investment grade (Ba1 to Ba3)	**884**	**27**	**360**	**17**	**1,244**	**23**	988	17
Speculative and below (≤B1)	**1,107**	**34**	**275**	**13**	**1,382**	**26**	1,464	25
Total	**$3,239**	**100%**	**$2,106**	**100%**	**$5,345**	**100%**	$5,813	100%

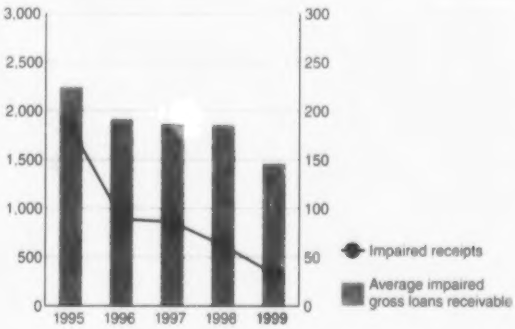
* *Moody's long-term rating*

Impaired Loans

In May 1999, Peru's outstanding sovereign portfolio of $647 million was restored to performing status as a result of a consistent pattern of payments being received over the last several years. As a result of Peru's change in status, cash flow as a percentage of average impaired gross loans receivable has declined.

As well, three commercial loans totaling $105 million and loans to Honduras ($28 million) and Pakistan ($28 million) were classified as impaired during the year. The three impaired commercial loans are reflective of the growth incurred in the commercial sector over the past several years and have been valued at their estimated net realizable value. The loans to two sovereigns have been valued at the net present value of expected cash flows in accordance with the sovereign loan allowance policy.

Impaired Receipts to Average Gross Loans Receivable
($ in millions)



($ in millions)	**1999**	1998	1997	1996	1995
Average impaired gross loans receivable	**1,468**	1,861	1,869	1,919	2,247
Impaired receipts (principal and interest)	**33**	62	86	89	182
Cash flow as a percentage of average receivable	**2.25%**	3.33%	4.60%	4.64%	8.10%

Payments received from the Government of Canada for debt relief for sovereign impaired loans totaled $59 million in 1999 (1998 – $97 million). These payments related to impaired loans in Côte d'Ivoire ($24 million), Cameroon ($19 million), Bosnia-Herzegovina ($10 million) and Senegal ($6 million). These amounts are not included as receipts from borrower countries in the chart on the previous page.

The following cash flows pertain to impaired loan debtors and represent to a large extent the long-term efforts of multilateral rescheduling arrangements through the Paris Club. The largest receipts for impaired loans including contractual principal and interest from borrowers were as noted:

($ in millions)	**1999**		1998
Cameroon	**13**	Peru	37
Peru (impaired status only)	**7**	Cameroon	12
Venezuela	**7**	Russia	6
Other	**6**	Other	7
Total	**$33**	Total	$62

Credit Quality – Insurance

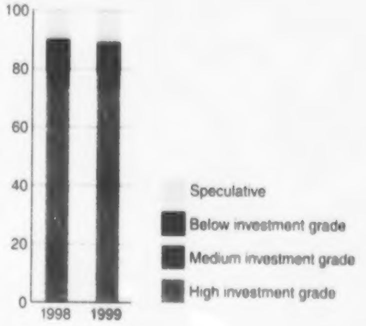
The Corporation rates country risk on a scale from 1 to 4 (high investment grade to speculative grade).

Short-Term

Within the short-term programs, the comparative spread of risk in terms of country risk classification has remained relatively unchanged from 1998 levels. The largest balance of short-term contingent liabilities is within category 1 countries, which represent $5,196 million, or 73% of total short-term contingent liabilities.

Insurance Policies Outstanding – Short-Term

(%)



Medium-Term

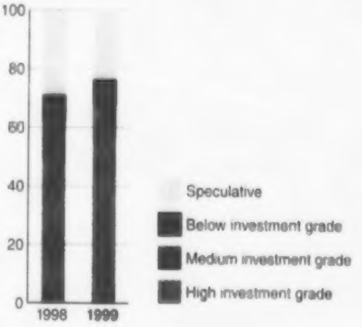
Within the medium-term programs, there was a 7% increase in high investment grade concentration in 1999, when compared with 1998 levels, as well as a 5% decrease in speculative grade concentration in 1999 over 1998 concentrations.

The increase in high investment grade concentration in 1999 was partly the result of an overall increase of 6% in exposure in Canada, due to the increased use of surety bond insurance. As well, concentration of exposure in Israel increased by 4% or $213 million over 1998 levels.

The decrease in speculative grade concentration in 1999 within the medium-term programs was largely the result of decreased concentrations in Brazil, Turkey, Kyrgyzstan and Algeria, as well as an upgrade of Peru from speculative grade in 1998 to below investment grade in 1999.

Insurance Policies Outstanding – Medium-Term

(%)



Claims Experience

($ in millions)	**1999**	1998
Claims paid	**134**	72
Claims recovered	**17**	19
Net claims	**$117**	$53

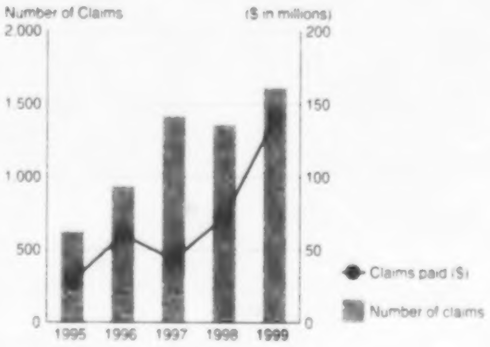
In 1999, the Corporation paid 1,622 claims in 66 countries. During the same period in 1998, the Corporation paid 1,357 claims in 60 countries.

This increase is largely related to the impact of a series of market crises, such as Russia's debt default in 1998 and Brazil's currency devaluation in early 1999. More details on the nature of these claims are provided in the following section.

There was an 86% increase in the dollar value of claim payments to $134 million in 1999 and an increase of 20% in the number of claims paid from 1998.

The claims paid as a percentage of insurance policies and guarantees outstanding over the past five years has averaged 0.72%.

Claims Paid



Size Concentration

($ in millions)	**1999**			1998		
	Claims Paid $	**Number of Claims Paid**	**Claims Recovered $**	Claims Paid $	Number of Claims Paid	Claims Recovered $
$0–$100,000	**20**	**1,472**	**11**	15	1,272	10
$100,001–$1 million	**34**	**124**	**2**	20	72	2
Over $1 million	**80**	**26**	**4**	37	13	7
Total	**$134**	**1,622**	**$17**	$72	1,357	$19

Due to an increase in the number of larger claim payments (over $1 million) paid in 1999, the average amount paid per claim increased to $83 thousand from $53 thousand in 1998.

Insurance Claims Paid by Geographic Market

($ in millions)	**1999**					1998				
Geographic Market	**Default**	**Insolvency**	**Transfer**	**Other**	**Total**	Default	Insolvency	Transfer	Other	Total
Middle East/Africa	**1**	**1**	**–**	**1**	**3**	3	–	–	1	4
Asia/Pacific	**2**	**22**	**–**	**5**	**29**	10	6	–	1	17
Europe	**8**	**4**	**22**	**7**	**41**	2	10	–	–	12
South America/ Central America	**10**	**7**	**–**	**–**	**17**	5	–	–	–	5
North America/ Caribbean*	**23**	**17**	**–**	**4**	**44**	21	8	–	5	34
Total	**$44**	**$51**	**$22**	**$17**	**$134**	$41	$24	–	$7	$72

* *Includes Mexico*

Default Risk

Default risk is defined as the failure of the buyer to pay by the due date all or any part of the gross invoice value of goods delivered to and accepted by the buyer.

The decrease in claim payments in Asia and Pacific for default is mainly due to a decrease in claim payments for losses in India ($5 million).

Claims Experience

($ in millions)	1999	1998
Claims paid	[illegible]	72
Claims recovered	17	19
Net claims	$117	$53

In 1999, the Corporation paid 1,622 claims in 66 countries. During the same period in 1998, the Corporation paid 1,357 claims in 60 countries.

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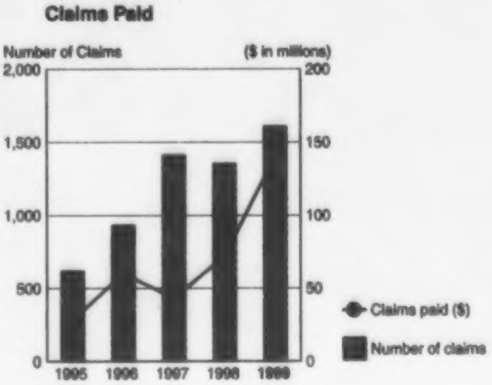
Claims Paid



Size Concentration

($ in millions)	1999			1998		
	Claims Paid $	Number of Claims Paid	Claims Recovered $	Claims Paid $	Number of Claims Paid	Claims Recovered $
$0–$100,000	[illegible]	1,472	[illegible]	15	1,272	10
$100,001–$1 million	[illegible]	[illegible]	[illegible]	20	72	2
Over $1 million	[illegible]	[illegible]	[illegible]	37	13	7
Total	[illegible]	[illegible]	$17	$72	1,357	$19

Due to an increase in the number of larger claim payments (over $1 million) paid in 1999, the average amount paid per claim increased to $83 thousand from $53 thousand in 1998.

Insurance Claims Paid by Geographic Market

($ in millions)	1999					1998				
Geographic Market	Default	Insolvency	Transfer	Other	Total	Default	Insolvency	Transfer	Other	Total
Middle East/Africa	1	1	–	1	[illegible]	3	–	–	1	4
Asia/Pacific	7	[illegible]	–	5	[illegible]	10	6	–	1	17
Europe	[illegible]	4	[illegible]	7	[illegible]	2	10	–	–	12
South America/ Central America	[illegible]	[illegible]	–	–	17	5	–	–	–	5
North America/ Caribbean*	[illegible]	[illegible]	–	6	44	21	8	–	5	34
Total	[illegible]	[illegible]	[illegible]	$17	[illegible]	$41	$24	–	$7	$72

* *Includes Mexico*

Default Risk

Default risk is defined as the failure of the buyer to pay by the due date all or any part of the gross invoice value of goods delivered to and accepted by the buyer.

The decrease in claim payments in Asia and Pacific for default is mainly due to a decrease in claim payments for losses in India ($5 million).

Insolvency Risk

Insolvency of the customer occurs when the customer has reorganized his financial affairs under the bankruptcy or insolvency laws of his country.

The $16 million increase from 1998 in insolvency claims paid in Asia and Pacific is largely due to an increase in payments for losses in Hong Kong ($18 million) and China ($5 million), offset by a decrease in payments for losses in Taiwan ($3 million) and Japan ($2 million).

Transfer Risk

Transfer risk is described as the restriction by a law or any governmental directive in the customer's country which restricts or prevents the transfer of currency, and as a consequence prevents the customer from making any payment required to the exporter.

The $22 million in claim payments made in Europe for transfer risk is due to failure of Russian banks to meet their obligations.

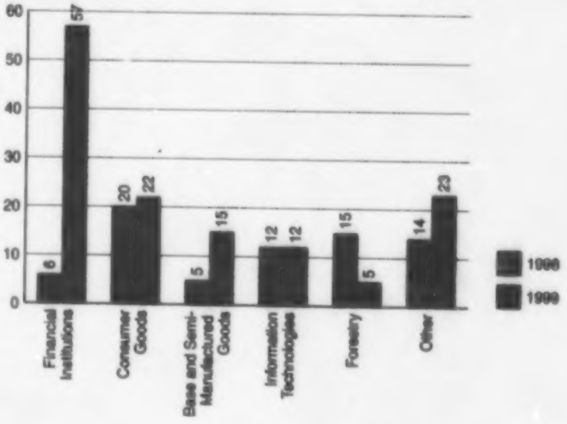
Default and insolvency claim payments on behalf of losses in Brazil ($5 million), Argentina ($3 million), Colombia and Venezuela ($2 million each) account for most of the increase in default and insolvency claim payments in South America and Central America.

The overall increase in default and insolvency claims paid within North America and the Caribbean is mainly due to increases in the United States ($15 million), offset by a decrease in Mexico ($5 million).

Industry Concentration

Within the Financial Institutions industry sector, 35 claims were paid in 1999, totaling $57 million, compared to 10 claims totaling $6 million in 1998. The majority of these claims were due to losses in Russia ($22 million) and Hong Kong ($18 million).

Claims Paid by Industry Sector
($ in millions)

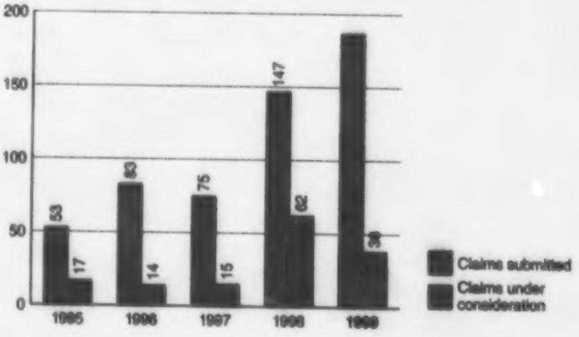


Claims Submitted

At the end of 1999, the value of the claims requests that were still under consideration was $38 million (1998 – $62 million). The five largest concentrations are related to claims pending for losses in Pakistan ($14 million), the United States ($9 million), Brazil ($3 million), Japan ($3 million) and the United Kingdom ($2 million).

The value of claims submitted has increased from $147 million in 1998 to $187 million in 1999. The top five countries with the largest claims submitted in 1999 were the United States ($56 million), Russia ($32 million), Hong Kong ($20 million), Brazil ($12 million) and Canada ($8 million).

Claims Submitted and Claims Under Consideration
($ in millions)



Credit Quality – Investments and Derivative Financial Instruments

Treasury credit risk is the credit risk associated with EDC's holdings of interest bearing deposits, marketable securities, investments and derivative financial instruments. EDC uses derivative financial instruments to convert market risk to credit risk. For interest bearing deposits, marketable securities and investments, the potential exposure is represented by the carrying value of the financial instrument. The potential loss on derivative financial instruments is the replacement cost of contracts that have a positive fair value. EDC's activities with respect to derivative financial instruments are discussed in greater detail in the market risk section. The Corporation's risk management policies limit counterparty credit exposures by credit rating and term. Credit exposures are evaluated on an ongoing basis. Changes in counterparty creditworthiness and market movements may cause limits to be exceeded and in such cases management will determine appropriate action.

The following table provides a breakdown, by credit rating, of EDC's Treasury credit risk exposure:

($ in millions)

	Remaining Term to Maturity				
Credit Rating*	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Aaa	786	74	2	14	876
Aa1	899	193	72	60	1,224
Aa2	231	24	23	30	308
Aa3	830	225	61	79	1,195
A1	397	27	–	–	424
A2	81	15	–	–	96
Total	$3,224	$558	$158	$183	$4,123

* *Moody's long-term rating*

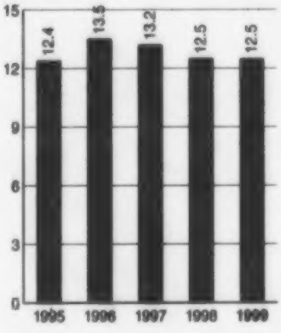
Allowances

Allowance for Losses on Loans

EDC classifies its loan assets into five categories. The first four categories represent groups of performing loans that share the same credit rating. The Corporation categorizes its performing commercial and sovereign loans using a rating system of 1 to 4 (high investment grade to speculative grade), then establishes an appropriate general allowance for each performing risk category. The fifth category represents loans evaluated for impairment on a loan by loan basis and gives rise to the specific allowance, which is based on discounted cash flows.

EDC's level of loan loss provisioning has remained steady during 1999 at 12.5%. This was the net effect of higher provisioning on commercial loans, precipitated by a higher proportion of below investment grade loans. Offsetting commercial growth is a lower provision maintained on sovereign loans due to stable repayment patterns from impaired sovereign borrowers.

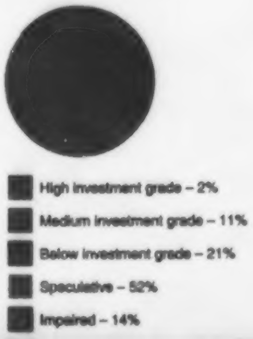
Allowance for Losses on Loans as a Percentage of Gross Loans Receivable
(%)



Commercial Allowance

The Corporation utilizes external credit ratings on its commercial borrowers in order to classify commercial loans receivable into credit categories. When external ratings are unavailable, loan reviews and an internal rating system are used to determine the appropriate credit classification. For each rating classification, a general allowance rate is established using default rates developed by external credit-rating agencies and the Corporation's own historical loss experience for each risk pool.

Commercial Allowance by Loan Category



The 1999 commercial allowance on loans as a percentage of exposure is as follows:

($ in millions)

	1999			1998		
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%
High investment grade (≥ A3)	[illegible]	1,875	2	42	2,350	2
Medium investment grade (Baa1 to Baa3)	[illegible]	[illegible]	4	88	2,298	4
Below investment grade (Ba1 to Baa3)	311	2,223	14	248	1,789	14
Speculative Grade (≤ B1)	[illegible]	2,844	28	604	2,392	25
Impaired	211	242	87	125	142	88
Total	$1,478	$11,240	13%	$1,107	$8,971	12%

* *Moody's long-term rating*

** *Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The commercial allowance increased to $1,478 million from $1,107 million a year earlier. This is the result of strong growth in the commercial loans portfolio, particularly in those loans rated below investment grade. Loans of lower credit quality have a higher effect on the amount of allowance provided based on future expected cash flows.

The allowance required for impaired loans increased to $211 million in 1999 from $125 million in 1998. This increase can be attributed primarily to the impairment of three commercial loans totaling $105 million, causing an increase in the allowance of $79 million.

The following table outlines the changes to the allowance for losses on commercial loans:

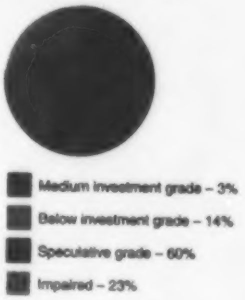
($ in millions)

	1999	1998
Balance at beginning of year	1,107	698
Portfolio growth	[illegible]	275
Credit migration	70	36
Increase due to additional impaired loans	81	23
Foreign exchange	([illegible])	75
Balance at end of year	$1,478	$1,107

Sovereign Allowance

The Corporation classifies each sovereign counterparty by common characteristics based on risk categories or pools using external credit-rating agencies. For those countries not specifically rated, an assessment using external and internal benchmarks is employed to provide a rating. A general allowance rate is applied to exposure after considering default rates based on external credit-rating agencies and the Corporation's own historical loss experience.

Sovereign Allowance by Loan Category



The 1999 commercial allowance on loans as a percentage of exposure is as follows:

($ in millions)

	1999			1998		
Provision category*	**Allowance**	**Exposure****	**%**	Allowance	Exposure**	%
High investment grade (≥ A3)	**25**	**1,575**	**2**	42	2.350	2
Medium investment grade (Baa1 to Baa3)	**167**	**4,265**	**4**	88	2.298	4
Below investment grade (Ba1 to Baa3)	**311**	**2,223**	**14**	248	1.789	14
Speculative Grade (≤ B1)	**764**	**2,944**	**26**	604	2.392	25
Impaired	**211**	**242**	**87**	125	142	88
Total	**$1,478**	**$11,249**	**13%**	$1.107	$8.971	12%

* *Moody's long-term rating*

** *Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The commercial allowance increased to $1,478 million from $1,107 million a year earlier. This is the result of strong growth in the commercial loans portfolio, particularly in those loans rated below investment grade. Loans of lower credit quality have a higher effect on the amount of allowance provided based on future expected cash flows.

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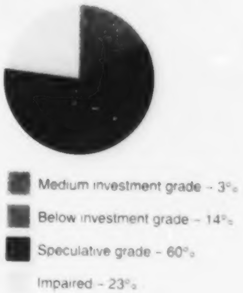
The following table outlines the changes to the allowance for losses on commercial loans:

($ in millions)	**1999**	1998
Balance at beginning of year	**1,107**	698
Portfolio growth	**288**	275
Credit migration	**70**	36
Increase due to additional impaired loans	**81**	23
Foreign exchange	**(68)**	75
Balance at end of year	**$1,478**	$1.107

Sovereign Allowance

The Corporation classifies each sovereign counterparty by common characteristics based on risk categories or pools using external credit-rating agencies. For those countries not specifically rated, an assessment using external and internal benchmarks is employed to provide a rating. A general allowance rate is applied to exposure after considering default rates based on external credit-rating agencies and the Corporation's own historical loss experience.

Sovereign Allowance by Loan Category



The 1999 sovereign allowance on loans as a percentage of exposure is as follows:

($ in millions)	1999			1998		
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%
High investment grade (≥ A3)	1	747	–	1	531	–
Medium investment grade (Baa1 to Baa3)	29	1,454	2	32	1,598	2
Below investment grade (Ba1 to Baa3)	116	1,158	10	107	1,069	10
Speculative Grade (≤ B1)	509	2,315	22	517	2,354	22
Impaired	191	493	39	296	746	40
Total	$846	$6,167	14%	$953	$6,298	15%

* *Moody's long-term rating*

** *Exposure includes gross loans receivable, net of non-accrued capitalized interest.*

The level of provisioning on sovereign impaired loans has decreased by $105 million, resulting primarily from a revaluation of impaired loans to Cameroon and Côte d'Ivoire. A stable pattern of repayments has allowed the Corporation to decrease the allowance based on expected future cash flows. Also reducing the sovereign allowance is a foreign exchange translation gain of $65 million.

The following table outlines the effect of these changes on the allowance for losses on sovereign loans:

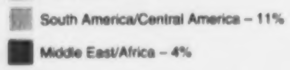
($ in millions)	1999	1998
Balance at beginning of year	953	930
Portfolio growth	(2)	1
Credit migration	20	72
Revaluation of impaired loans	(60)	(94)
Foreign exchange	(65)	44
Balance at end of year	$846	$953

Allowance for Claims on Insurance and Guarantees

As at December 31, 1999, the allowance for claims on insurance and guarantees is $454 million, an increase of $18 million or 4% over the 1998 allowance of $436 million. The increase in the allowance for claims on insurance and guarantees is primarily attributable to the continued growth in both the short-term and medium-term insurance portfolios. During 1999, $126 million was charged to the income statement for the provision for credit losses relating to claims on insurance and guarantees. This was offset by charges to the allowance of $82 million, due to the re-evaluation of recoverable claims paid and by a decrease of $26 million due to foreign exchange fluctuation.

Eighty-three per cent of the total unrecoverable portion of claims paid was in the short-term program.

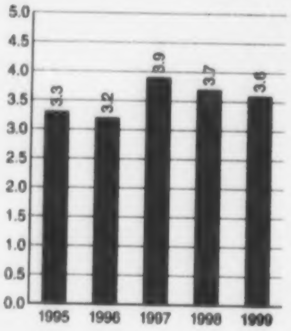
Unrecoverable Portion of Claims Paid by Geographic Market – 1999



**Includes Mexico*

The allowance as a percentage of insurance policies and loan guarantees outstanding has remained within a range of 3.2% to 3.9% averaging 3.5% over the last five years. The allowance is based on an actuarial valuation of the insurance policy and claim liabilities. The actuarial valuation uses simulation techniques and is based on assumptions (frequency of claim and severity of loss) relevant for each insurance program separately and is derived from the Corporation's own experience. Moreover, the allowance includes a provision for adverse deviation such that it will be sufficient to cover all expected losses 19 times out of 20. This year's increase in the allowance results from growth in most insurance programs as well as a corresponding growth in the claims under consideration and incurred but not reported claims.

Allowance as a % of Insurance Policies and Loan Guarantees Outstanding
(%)



Capitalization

The gross assets of the Corporation are $23.2 billion (1998 – $19.0 billion) which are supported by shareholder's equity and allowances of $4.6 billion (1998 – $4.2 billion). At this level of capitalization, 20% of assets do not require external debt financing (1998 – 22%).

The following table shows the capitalization of EDC over the last five years:

($ in millions)	**1999**	1998	1997	1996	1995
Shareholder's equity:					
Capital	**983**	983	983	983	851
Retained earnings	**815**	697	562	434	322
Sub-total	**1,798**	1,680	1,545	1,417	1,173
Allowances	**2,798**	2,516	1,984	1,683	1,457
Total capitalization	**$4,596**	$4,196	$3,529	$3,100	$2,630

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. The Corporation manages its exposure to market risk utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors. The Treasury Division meets weekly and the Corporation's Finance Group meets bi-weekly to review and discuss market and credit risks and to analyze borrowing requirements. These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to its Audit Committee of the Board, and to the Board of Directors.

Asset/Liability Management

The following table provides a breakdown of EDC's asset portfolios:

($ in millions)	Total (CAD equiv.)	%	Canadian Dollars	U.S. Dollars	Other Currencies (CAD equiv.)
Floating rate portfolio	11,001	50	1,001	6,069	1,241
Fixed rate portfolio	7,597	35	230	4,905	288
Investments	3,289	15	947	1,565	84

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities accordingly but must balance the need to match its assets and liabilities with opportunities to obtain sub-LIBOR funding. In doing so, EDC may expose itself to interest rate and foreign exchange risk. These asset/liability gaps are measured against policy limits and reported to senior management on a monthly basis.

The 1999 sovereign allowance on loans as a percentage of exposure is as follows:

($ in millions)	**1999**			1998		
Provision category*	**Allowance**	**Exposure****	**%**	Allowance	Exposure**	%
High investment grade (≥ A3)	**1**	**747**	**–**	1	531	–
Medium investment grade (Baa1 to Baa3)	**29**	**1,454**	**2**	32	1,598	2
Below investment grade (Ba1 to Baa3)	**116**	**1,158**	**10**	107	1,069	10
Speculative Grade (≤ B1)	**509**	**2,315**	**22**	517	2,354	22
Impaired	**191**	**493**	**39**	296	746	40
Total	**$846**	**$6,167**	**14%**	$953	$6,298	15%

* *Moody's long-term rating*

** *Exposure includes gross loans receivable, net of non-accrued capitalized interest*

The level of provisioning on sovereign impaired loans has decreased by $105 million, resulting primarily from a revaluation of impaired loans to Cameroon and Côte d'Ivoire. A stable pattern of repayments has allowed the Corporation to decrease the allowance based on expected future cash flows. Also reducing the sovereign allowance is a foreign exchange translation gain of $65 million.

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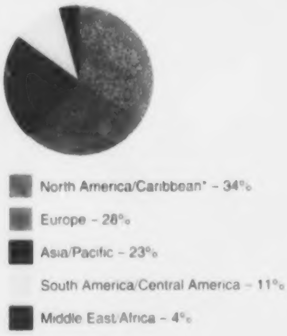
Foreign exchange	**(65)**	44
Balance at end of year	**$846**	$953

Allowance for Claims on Insurance and Guarantees

As at December 31, 1999, the allowance for claims on insurance and guarantees is $454 million, an increase of $18 million or 4% over the 1998 allowance of $436 million. The increase in the allowance for claims on insurance and guarantees is primarily attributable to the continued growth in both the short-term and medium-term insurance portfolios. During 1999, $126 million was charged to the income statement for the provision for credit losses relating to claims on insurance and guarantees. This was offset by charges to the allowance of $82 million, due to the re-evaluation of recoverable claims paid and by a decrease of $26 million due to foreign exchange fluctuation.

Eighty-three per cent of the total unrecoverable portion of claims paid was in the short-term program.

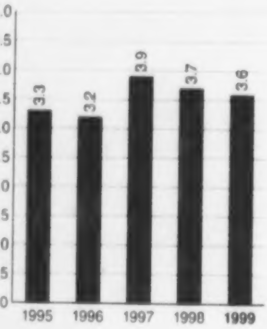
Unrecoverable Portion of Claims Paid by Geographic Market – 1999



**Includes Mexico*

The allowance as a percentage of insurance policies and loan guarantees outstanding has remained within a range of 3.2% to 3.9% averaging 3.5% over the last five years. The allowance is based on an actuarial valuation of the insurance policy and claim liabilities. The actuarial valuation uses simulation techniques and is based on assumptions (frequency of claim and severity of loss) relevant for each insurance program separately and is derived from the Corporation's own experience. Moreover, the allowance includes a provision for adverse deviation such that it will be sufficient to cover all expected losses 19 times out of 20. This year's increase in the allowance results from growth in most insurance programs as well as a corresponding growth in the claims under consideration and incurred but not reported claims.

Allowance as a % of Insurance Policies and Loan Guarantees Outstanding
(%)



Capitalization

The gross assets of the Corporation are $23.2 billion (1998 – $19.0 billion) which are supported by shareholder's equity and allowances of $4.6 billion (1998 – $4.2 billion). At this level of capitalization, 20% of assets do not require external debt financing (1998 – 22%).

The following table shows the capitalization of EDC over the last five years:

($ in millions)	**1999**	1998	1997	1996	1995
Shareholder's equity:					
Capital	**983**	983	983	983	851
Retained earnings	**815**	697	562	434	322
Sub-total	**1,798**	1,680	1,545	1,417	1,173
Allowances	**2,798**	2,516	1,984	1,683	1,457
Total capitalization	**$4,596**	$4,196	$3,529	$3,100	$2,630

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. The Corporation manages its exposure to market risk utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors. The Treasury Division meets weekly and the Corporation's Finance Group meets bi-weekly to review and discuss market and credit risks and to analyze borrowing requirements. These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to its Audit Committee of the Board, and to the Board of Directors.

Asset/Liability Management

The following table provides a breakdown of EDC's asset portfolios:

($ in millions)	Total (CAD equiv.)	%	Canadian Dollars	U.S. Dollars	Other Currencies (CAD equiv.)
Floating rate portfolio	11,001	50	1,001	6,069	1,241
Fixed rate portfolio	7,597	35	230	4,905	288
Investments	3,289	15	947	1,565	84

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities accordingly but must balance the need to match its assets and liabilities with opportunities to obtain sub-LIBOR funding. In doing so, EDC may expose itself to interest rate and foreign exchange risk. These asset/liability gaps are measured against policy limits and reported to senior management on a monthly basis.

Interest Rate Risk

Interest rate risk is the exposure of the Corporation's market value and net interest income to adverse movements in interest rates. Interest rate risk exists where there is a mismatch between maturities and/or interest rate resets between assets and liabilities.

Foreign Exchange Risk

Foreign exchange risk is the exposure of the Corporation's net interest income and market value to adverse movements in foreign exchange rates. Foreign exchange risk exists where there is a mismatch between assets and liabilities in any currency. This risk is measured on a translation basis.

The likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates is monitored and managed within operational guidelines and Board-approved policies. Market risk is aggregated and managed on an integrated basis. Limits exist for interest rate and foreign exchange rate shock effects in relation to projected net interest income and economic value. Exposures are classified, calculated and limited on a consolidated Canadian dollar equivalent basis, covering EDC's lending, investing, funding and derivative transactions.

EDC is currently within its risk management guidelines and policies with respect to its exposure to interest rate and foreign exchange risk.

EDC continues to improve analytical techniques, information systems and reporting to enhance the evaluation and control of risk. The Treasury Risk Management Policies are reviewed annually with the Corporation's Board of Directors.

Derivatives

EDC utilizes a variety of derivatives to manage costs, returns and levels of financial risk associated with its funding, investment and risk management activities. EDC's use of derivatives may include, but is not restricted to, currency and interest rate swaps, foreign exchange contracts, equity index swaps, forward rate agreements, futures and options.

EDC does not engage in the use of derivatives whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Treasury Risk Management Department formally reviews EDC derivative financial instrument transactions at time of inception, and on an ongoing basis, to provide an independent verification on the valuation of transaction structures, and of associated financial risks.

The use of any new derivative products is reviewed and reported separately by the Treasury Risk Management Department to the Treasurer and the Senior Vice-President and Chief Financial Officer. Financial risks associated with derivatives are controlled and reported as specified in Treasury Risk Management Policies. EDC's use of derivatives is typically linked to the following activities:

Funding

Derivatives are used to achieve reduced fixed rate or sub-LIBOR floating rate funding costs. An example would be issuing an EDC bond in a foreign currency, on a fixed interest rate basis, and entering into a currency and interest rate swap with a creditworthy counterparty to achieve low cost floating rate U.S. dollar denominated debt, thereby replacing the foreign currency denominated payment obligations with U.S. dollar denominated obligations. The combination of the bond issue and swap would deliver a more favourable cost of funding than could be achieved using a straight U.S. dollar floating rate bond issue.

Investing

Derivatives are used to maximize yields on investments. For example, rather than invest directly in a three month U.S. dollar treasury bill, EDC may obtain a higher yield by investing in a Japanese yen swapped deposit, where U.S. dollars are converted to yen and invested in a three month yen deposit. At maturity, the maturing term deposit plus interest is swapped back into U.S. dollars. This structure uses a forward foreign exchange contract to enhance the investment yield.

Risk Management

Derivatives are used to hedge risks by diversifying concentrated exposures. For example, EDC might balance the proportion of fixed to floating rate assets in its investment book, using interest rate swaps, in order to diversify interest rate risk.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet current and future cash outflow requirements. Pursuant to its risk management policies, EDC must maintain enough liquidity to meet the following six months net cash outflow requirements without accessing the capital markets (i.e., bond issuance). This is ensured by measuring and reporting to senior management EDC's actual liquidity position against this minimum limit on a monthly basis.

EDC maintains liquidity through a variety of methods:

Access to Commercial Paper Markets: In the course of its normal activities, EDC's commercial paper programs provide the Corporation with the necessary liquidity to meet its cash requirements on a daily basis. During 1999, the average balance of short-term debt was $3,429 million (1998 – $2,979 million) with a turnover of 21 times (1998 – 26 times).

Cash and Marketable Securities: EDC holds cash and marketable securities to ensure that sufficient liquidity is available, if required, to meet forecasted cash requirements. During 1999, the average balance of cash and marketable securities was $2,758 million (1998 – $1,908 million).

Standby Credit Facility: As a contingency, EDC also maintains a U.S. dollar $2 billion standby revolving credit facility to further ensure its liquidity. To date, it has not been necessary to use this facility.

Credit Ratings

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. Securities issued by the Corporation are assigned a zero risk weighting in accordance with capital adequacy guidelines established by North American bank regulatory agencies.

EDC has the following credit ratings:

	Domestic		Foreign Currency	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P1	Aa2	P-1
Standard & Poors	AAA	A-1+	AA+	A-1+
Japan Credit Rating Agency	AAA	–	AAA	–

Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies and procedures in place that establish clear segregation of responsibilities and timely internal reporting to management.

The Year 2000 Issue

The Year 2000 issue arose because many existing computer systems recorded and identified years with two digits, rather than four. When the century rollover occurred, dates contained the two-digit year "00." Many computers or electronic equipment may have failed to recognize the change to the Year 2000. If not corrected, computer applications could have failed or produced erroneous results, potentially impacting business viability and profitability.

EDC's efforts with respect to the Year 2000 proved successful. The transition to the Year 2000 was uneventful due to the significant preparation which involved an inventory of technology, review and remediation of computer systems, verification of all technology, contingency planning, business partner readiness assessment and an understanding of the potential impact of Year 2000 financially on the organization. EDC also followed best practice guidelines as established by expert groups and initiatives by financial organizations.

Nothing to date has come to the attention of the Corporation that would identify external risk due to the possible non-compliance of EDC's customers, suppliers, business partners and counterparties, although the risk still exists and cannot be quanitified at this time. EDC will continue to monitor these external risks throughout 2000.

Financial Reporting Responsibility

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors of EDC is responsible for the management of the business and activities of the Corporation. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Contracts which, in the opinion of EDC, involve risks in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Minister for International Trade and the Minister of Finance where the Minister for International Trade considers them to be in the national interest. Funds required for such contracts are paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in note 19 to the Corporation's consolidated financial statements and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the consolidated financial statements. His report is presented on the following page.

P. Allen

A. Ian Gillespie
President and
Chief Executive Officer

Peter Allen
Senior Vice-President and
Chief Financial Officer

AUDITOR GENERAL OF CANADA **VÉRIFICATEUR GÉNÉRAL DU CANADA**

To the Minister for International Trade

I have audited the consolidated balance sheet of the Export Development Corporation as at December 31, 1999 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly-owned subsidiary.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
February 3, 2000

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consolidated Balance sheet

as at December 31, 1999

($ in millions)	1999	1998
Assets		
Cash and Investments		
Cash and cash equivalents	778	81
Marketable securities (note 3)	2,452	1,318
Investments (note 4)	168	331
Accrued interest	21	13
	3,419	1,743
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	14,844	12,989
Accrued interest and fees	291	222
	15,135	13,211
Other		
Recoverable insurance claims (note 10)	77	44
Derivative related amounts	709	438
Other assets	83	44
	869	526
Total Assets	$19,423	$15,480
Liabilities and Shareholder's Equity		
Loans Payable (notes 12 and 13)		
Loans payable	16,248	12,636
Accrued interest	697	465
	16,945	13,101
Other Liabilities and Deferred Revenue		
Accounts payable and other credits	92	133
Deferred insurance premiums	24	19
Derivative related amounts	110	111
Allowance for claims on insurance and guarantees (note 10)	454	436
	680	699
Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity		
Share capital (note 14)	983	983
Retained earnings	815	697
	1,798	1,680
Total Liabilities and Shareholder's Equity	$19,423	$15,480

See accompanying notes.

Approved by the Board of Directors

J. Pattillo
Director

A. Ian Gillespie
Director

consolidated statement of income and Retained Earnings

for the year ended December 31, 1999

($ in millions)	1999	1998
Interest income		
Loans	[illegible]	1,055
Marketable securities and investments	[illegible]	126
	[illegible]	1,181
Interest expense	[illegible]	642
Net Interest Income	[illegible]	539
Insurance Premiums and Guarantee Fees	133	110
Provision for Credit Losses (note 11)	523	433
Income after provision for credit losses	218	216
Administrative Expenses	100	81
Net Income	118	135
Retained Earnings		
Beginning of year	697	562
End of year	$815	$697

See accompanying notes.

consolidated Balance sheet

as at December 31, 1999

($ in millions)	**1999**	1998
Assets		
Cash and Investments		
Cash and cash equivalents	**778**	81
Marketable securities (note 3)	**2,452**	1,318
Investments (note 4)	**168**	331
Accrued interest	**21**	13
	3,419	1,743
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	**14,844**	12,989
Accrued interest and fees	**291**	222
	15,135	13,211
Other		
Recoverable insurance claims (note 10)	**77**	44
Derivative related amounts	**739**	438
Other assets	**53**	44
	869	526
Total Assets	**$19,423**	$15,480
Liabilities and Shareholder's Equity		
Loans Payable (notes 12 and 13)		
Loans payable	**16,248**	12,636
Accrued interest	**697**	465
	16,945	13,101
Other Liabilities and Deferred Revenue		
Accounts payable and other credits	**92**	133
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Allowance for claims on insurance and guarantees (note 10)	**454**	436
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Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity		
Share capital (note 14)	**983**	983
Retained earnings	**815**	697
	1,798	1,680
Total Liabilities and Shareholder's Equity	**$19,423**	$15,480

See accompanying notes.

Approved by the Board of Directors

J. Pattillo
Director

A. Ian Gillespie
Director

consolidated statement of income and Retained Earnings

for the year ended December 31, 1999

($ in millions)	**1999**	1998
Interest income		
Loans	**1,258**	1.055
Marketable securities and investments	**146**	126
	1,404	1.181
Interest expense	**796**	642
Net Interest Income	**608**	539
Insurance Premiums and Guarantee Fees	**133**	110
Provision for Credit Losses (note 11)	**523**	433
Income after provision for credit losses	**218**	216
Administrative Expenses	**100**	81
Net Income	**118**	135
Retained Earnings		
Beginning of year	**697**	562
End of year	**$815**	$697

See accompanying notes

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consolidated statement of cash flows

for the year ended December 31, 1999

($ in millions)	**1999**	1998
Operating Activities		
Net income	**118**	135
Items not affecting cash and cash equivalents		
Provision for credit losses	**523**	433
Net increase in accrued interest and fees receivable	**(253)**	(114)
Net increase in accrued interest and fees payable	**84**	88
Other changes	**(147)**	(20)
Cash flows from operating activities	**325**	522
Investing Activities		
Loan disbursements	**(6,374)**	(5.822)
Loan repayments	**3,380**	2.806
(Increase)/decrease in marketable securities	**(1,208)**	221
Decrease in investments	**163**	77
Cash flows used in investing activities	**(4,039)**	(2.718)
Financing Activities		
Issue of long-term loans payable	**6,755**	3.455
Repayment of long-term loans payable	**(2,267)**	(2.931)
Increase/(decrease) in short-term loans payable	**(57)**	1.726
Cash flows from financing activities	**4,431**	2.250
Effect of exchange rate changes on cash and cash equivalents	**(20)**	3
Net increase in cash and cash equivalents	**697**	57
Cash and Cash Equivalents		
Beginning of year	**81**	24
End of year	**$778**	$81

Represented by		
Cash	**18**	81
Treasury bills	**760**	–
	$778	$81

Supplemental Information		
Cash paid for interest	**$708**	$572

See accompanying notes.

consolidated statement of cash flows

for the year ended December 31, 1999

($ in millions)	1999	1998
Operating Activities		
Net income	118	135
Items not affecting cash and cash equivalents		
Provision for credit losses	529	433
Net increase in accrued interest and fees receivable	(163)	(114)
Net increase in accrued interest and fees payable	84	88
Other changes	(147)	(20)
Cash flows from operating activities	[illegible]	522
Investing Activities		
Loan disbursements	(6,374)	(5,822)
Loan repayments	3,380	2,806
(Increase)/decrease in marketable securities	[illegible]	221
Decrease in investments	163	77
Cash flows used in investing activities	[illegible]	(2,718)
Financing Activities		
Issue of long-term loans payable	6,755	3,455
Repayment of long-term loans payable	[illegible]	(2,931)
Increase/(decrease) in short-term loans payable	(87)	1,726
Cash flows from financing activities	4,431	2,250
Effect of exchange rate changes on cash and cash equivalents	(38)	3
Net increase in cash and cash equivalents	697	57
Cash and Cash Equivalents		
Beginning of year	81	24
End of year	$778	$81
Represented by		
Cash	18	81
Treasury bills	760	–
	$778	$81
Supplemental Information		
Cash paid for interest	$708	$572

See accompanying notes.

Notes to the consolidated Financial statements

1. Corporate Mandate and Activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969, by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada which was last amended effective June 10, 1993. The Corporation is an agent of Her Majesty in right of Canada and was established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended in 1993 gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Act provides that a review of the provisions and operation of the Act must be undertaken at specified regular intervals. The first such review was completed in 1999. The Standing Senate Committee on Banking, Trade and Commerce is currently reviewing the report pertaining to this review. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed an amount equal to 10 times the authorized capital of the Corporation, or such a greater amount as may be specified in an appropriation Act. During 1999 the limit was increased from $15 billion to $17.5 billion by an appropriation Act. As at December 31, 1999, the contingent liabilities are $12.7 billion (1998 – $11.8 billion).

EDC is for all purposes an agent of Her Majesty in right of Canada. All obligations under debt instruments issued by the Corporation are obligations of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 1999, is $25.2 billion (1998 – $23.2 billion), against which borrowings amounted to $16.0 billion (1998 – $12.6 billion).

2. Summary of Significant Accounting Policies

Consolidated Statement of Cash Flows

In 1999, EDC adopted the new recommendations of the CICA with respect to the presentation of cash flow information.

Under these new recommendations, cash equivalents represent short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents on EDC's balance sheet comprise cash and Treasury bills. Cash flows arising from transactions in a foreign currency are translated at the yearly average exchange rate. As well, investing or financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows and disclosed elsewhere in the financial statements.

Marketable Securities

Securities, which are being held to maturity, are carried at cost. Gains and losses on these securities are recognized in income only when they are realized and the asset is removed from the balance sheet. In the case of a significant and other than temporary loss in the value of a security carried at cost, the security would be written down in value at the time of impairment. Temporary investments are carried at market value. The gains and losses arising from securities carried at market value are included in marketable securities and investment interest income.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest, deferred loan revenue and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest income until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

Deferred loan revenue, comprising exposure fees and administration fees, is recognized as interest income and amortized as a yield increment over the term of the related loan.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. The most material of these estimates are the allowance for losses on loans (Note 7) and the allowance for claims on insurance and guarantees (Note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The general allowance for losses on loans is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated using discounting of estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for losses on loans.

Allowance for Losses on Loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

General allowances include all accumulated provisions for losses on loans which are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for losses on loans. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio. This evidence can exist as early as the time of disbursement.

Recoverable Insurance Claims

Recoverable insurance claim payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

Allowance for Claims on Insurance and Guarantees

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for losses on loans. The related provision is recorded through the provision for credit losses.

Insurance Premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These derivative financial instruments are designated and effective as hedges. These contracts are carried on an accrual basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related. Where netting agreements exist, principal and accrued interest on contracts hedging long-term debt is aggregrated by counterparty. Resulting receivable balances are recognized in other assets and resulting payable balances are recognized in other liabilities and deferred revenue. Principal and accrued interest on derivative financial instruments hedging marketable securities are included in marketable securities. Principal and accrued interest on derivative financial instruments hedging short-term payables are included in loans payable.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

M121

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3. Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investment portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Temporary investments are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange obligations such as interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

($ in millions)				1999	1998
	[illegible]	[illegible]	Over 3 years	Total	Total
Investment portfolio					
Fixed rate securities					
Canadian government **	[illegible]	[illegible]	72	516	431
Corporate	[illegible]	[illegible]	17	94	40
Financial institutions	11	[illegible]	–	62	80
Other sovereign	–	[illegible]	14	14	37
Total fixed rate securities	[illegible]	[illegible]	103	686	588
Swap contracts	(41)	(144)	(17)	(202)	(162)
Net fixed	142	[illegible]	86	484	426
*Yield to maturity %**	[illegible]	[illegible]	[illegible]	*5.93*	*6.06*
Floating rate securities					
Canadian government **	[illegible]	–	–	–	13
Corporate	[illegible]	–	–	228	107
Financial institutions	[illegible]	–	–	1,086	299
Other sovereign	[illegible]	–	–	–	11
Total floating rate securities	1,314	–	–	1,314	430
Swap contracts	[illegible]	[illegible]	18	183	155
Net floating	[illegible]	[illegible]	18	1,497	585
*Yield to reset %**				*[illegible]*	*5.04*
Total investment portfolio	1,488	392	101	1,981	1,011
Temporary investments					
Floating rate securities					
Canadian government**	12	–	–	12	–
Corporate	127	–	–	127	269
Financial institutions	332	–	–	332	38
Total temporary investments	471	–	–	471	307
Spot yield %				*5.18*	*5.08*
Value at purchase				*468*	*306*
Total Marketable Securities	$1,959	$392	$101	$2,452	$1,318

* *Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

** *Canadian government includes federal, provincial, municipal governments and Crown corporations.*

Credit exposure arises from the possibility that a counterparty may default on its obligations. Credit exposure related to securities held in the investment portfolio and the temporary investment portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts that have a positive fair value (a contract which, if settled currently, would result in a gain). Credit exposure for swap contracts held in the investment portfolio is included as part of Note 16.

4. Investments

Investments comprise $115 million (1998 – $110 million) of restricted cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by Vancouver Port Authority (formerly Vancouver Port Corporation) and a Crown corporation, the Royal Canadian Mint, totaling $53 million (1998 – $221 million). The Crown corporation is related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. The investment with the Crown corporation was transacted at fair value, made on the same terms as those with third parties with similar credit risk, and is recorded at cost.

($ in millions)				1999	1998
	Remaining Term to Maturity*				
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Fixed rate investments	4	8	41	53	56
Floating rate investments	115	–	–	115	275
Total Investments	$119	$8	$41	$168	$331
*Yield %**	*5.13*	*6.33*	*6.46*	*6.33*	*6.23*

** Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)					1999					1998
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	[illegible]	8.71	8	3.21	110	40	9.27	14	2.11	54
1999	–	–	–	–	–	827	8.74	1,719	2.58	2,546
2000	[illegible]	[illegible]	[illegible]	1.38	3,010	703	8.73	947	1.94	1,650
2001	[illegible]	[illegible]	[illegible]	2.33	[illegible]	802	8.85	1,030	1.89	1,832
2002	[illegible]	8.47	[illegible]	1.69	1,766	634	8.59	844	1.77	1,478
2003	[illegible]	[illegible]	970	1.55	1,402	519	8.35	765	1.48	1,284
2004	[illegible]	[illegible]	747	1.60	1,313	478	8.08	545	1.56	1,023
2005–2009	[illegible]	7.76	[illegible]	1.37	[illegible]	1,606	7.81	1,686	1.29	3,292
2010 and beyond	[illegible]	7.83	907	0.86	2,576	1,004	7.83	432	0.86	1,436
Performing	7,421	7.81	[illegible]	1.58	17,290	6,613	8.01	7,982	1.83	14,595
Impaired (Note 6)	176		1,132		1,308	155		1,774		1,929
Gross loans receivable	$7,597		$11,001		[illegible]	$6,768		$9,756		$16,524
Less: Non-accrued capitalized interest on										
Impaired loans (Note 6)					573					1,041
Performing loans *					608					214
Loans receivable					17,416					15,269
Less: Allowance for losses on loans (Note 7)					2,324					2,060
Deferred loan revenue					243					220
Net Loans Receivable					$14,844					$12,989

** Represents the unamortized balance that accrued while the loan was impaired.*

At December 31, 1999, the floating rate performing gross loans receivable are yielding 7.52% (1998 – 7.19%) with an average term to reset of 108 days (1998 – 106 days).

3. Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investment portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Temporary investments are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange obligations such as interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

($ in millions)	Remaining Term to Maturity*			1999	1998
	Under 1 year	**1 to 3 years**	**Over 3 years**	**Total**	Total
Investment portfolio					
Fixed rate securities					
Canadian government **	**147**	**297**	**72**	**516**	431
Corporate	**25**	**52**	**17**	**94**	40
Financial institutions	**11**	**51**	**–**	**62**	80
Other sovereign	**–**	**–**	**14**	**14**	37
Total fixed rate securities	**183**	**400**	**103**	**686**	588
Swap contracts	**(41)**	**(144)**	**(17)**	**(202)**	(162)
Net fixed	**142**	**256**	**86**	**484**	426
*Yield to maturity %**	***5.61***	***6.38***	***5.98***	***5.93***	*6.06*
Floating rate securities					
Canadian government **	**–**	**–**	**–**	**–**	13
Corporate	**228**	**–**	**–**	**228**	107
Financial institutions	**1,086**	**–**	**–**	**1,086**	299
Other sovereign	**–**	**–**	**–**	**–**	11
Total floating rate securities	**1,314**	**–**	**–**	**1,314**	430
Swap contracts	**32**	**136**	**15**	**183**	155
Net floating	**1,346**	**136**	**15**	**1,497**	585
*Yield to reset %**				***5.55***	*5.04*
Total investment portfolio	**1,488**	**392**	**101**	**1,981**	1,011
Temporary investments					
Floating rate securities					
Canadian government**	**12**	**–**	**–**	**12**	–
Corporate	**127**	**–**	**–**	**127**	269
Financial institutions	**332**	**–**	**–**	**332**	38
Total temporary investments	**471**	**–**	**–**	**471**	307
Spot yield %				***5.18***	*5.08*
Value at purchase				***468***	*306*
Total Marketable Securities	**$1,959**	**$392**	**$101**	**$2,452**	$1.318

* *Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

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4. Investments

Investments comprise $115 million (1998 – $110 million) of restricted cash and securities held by EDC's subsidiary Eximvest Inc. and notes issued by Vancouver Port Authority (formerly Vancouver Port Corporation) and a Crown corporation, the Royal Canadian Mint, totaling $53 million (1998 – $221 million). The Crown corporation is related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. The investment with the Crown corporation was transacted at fair value, made on the same terms as those with third parties with similar credit risk, and is recorded at cost.

($ in millions)				**1999**	1998
	Remaining Term to Maturity*				
	Under 1 year	**1 to 3 years**	**Over 3 years**	**Total**	Total
Fixed rate investments	**4**	**8**	**41**	**53**	56
Floating rate investments	**115**	**–**	**–**	**115**	275
Total Investments	**$119**	**$8**	**$41**	**$168**	$331
*Yield %**	***5.13***	***6.33***	***6.46***	***6.33***	*6.23*

* *Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.*

5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

($ in millions)			**1999**							1998
	Fixed $	**Yield to Maturity %**	**Floating $**	**Spread %**	**Total $**	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Performing:										
Overdue	**108**	**9.11**	**8**	**3.21**	**116**	40	9.27	14	2.11	54
1999	**–**	**–**	**–**	**–**	**–**	827	8.74	1,719	2.58	2,546
2000	**855**	**8.34**	**2,155**	**1.58**	**3,010**	703	8.73	947	1.94	1,650
2001	**926**	**8.56**	**1,683**	**2.33**	**2,609**	802	8.85	1,030	1.89	1,832
2002	**675**	**8.47**	**1,091**	**1.83**	**1,766**	634	8.59	844	1.77	1,478
2003	**582**	**8.23**	**910**	**1.55**	**1,492**	519	8.35	765	1.48	1,284
2004	**566**	**8.00**	**747**	**1.60**	**1,313**	478	8.08	545	1.56	1,023
2005–2009	**2,040**	**7.76**	**2,368**	**1.37**	**4,408**	1,606	7.81	1,686	1.29	3,292
2010 and beyond	**1,669**	**7.68**	**907**	**0.88**	**2,576**	1,004	7.83	432	0.86	1,436
Performing	**7,421**	**7.81**	**9,869**	**1.58**	**17,290**	6,613	8.01	7,982	1.83	14,595
Impaired (Note 6)	**176**		**1,132**		**1,308**	155		1,774		1,929
Gross loans receivable	**$7,597**		**$11,001**		**$18,598**	$6,768		$9,756		$16,524
Less: Non-accrued capitalized interest on										
Impaired loans (Note 6)					**573**					1,041
Performing loans *					**609**					214
Loans receivable					**17,416**					15,269
Less: Allowance for losses on loans (Note 7)					**2,324**					2,060
Deferred loan revenue					**248**					220
Net Loans Receivable					**$14,844**					$12,989

* *Represents the unamortized balance that accrued while the loan was impaired.*

At December 31, 1999, the floating rate performing gross loans receivable are yielding 7.52% (1998 – 7.19%) with an average term to reset of 108 days (1998 – 106 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)			**1999**							1998
	Fixed $	**Yield to Maturity %**	**Floating $**	**Spread %**	**Total $**	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Sovereign	**3,256**	**8.45**	**3,027**	**1.23**	**6,283**	3,279	8.57	2,487	1.33	5,766
Commercial	**4,165**	**7.45**	**6,842**	**1.75**	**11,007**	3,334	7.63	5,495	2.03	8,829
Total	**$7,421**	**7.81**	**$9,869**	**1.58**	**$17,290**	$6,613	8.01	$7,982	1.83	$14,595

The following reflects the movement of non-accrued capitalized interest during the year:

($ in millions)	**1999**	1998
Balance at beginning of year	**1,255**	1,082
Capitalized interest	**68**	155
Amortization	**(69)**	(49)
Cash receipts	**(2)**	0
Foreign exchange	**(70)**	67
Balance at end of year	**$1,182**	$1,255

6. Impaired Loans Receivable

The Corporation has $1,308 million impaired gross loans receivable (1998 – $1,929 million) of which $1,060 million is sovereign (1998 – $1,784 million) and $248 million is commercial (1998 – $145 million). The following reflects the movement in the impaired loans portfolio during the year:

($ in millions)	**1999**	1998
Balance at beginning of year	**1,929**	1,785
Loans classified as impaired	**161**	40
Loans reinstated to performing	**(647)**	–
Capitalized interest	**39**	112
Principal repayments	**(15)**	(18)
Receipts from the Government of Canada for sovereign debt relief	**(59)**	(97)
Foreign exchange	**(100)**	107
Balance at end of year	**$1,308**	$1,929

The largest concentrations of gross loans receivable for impaired loans are listed in the following table:

($ in millions)		**1999**					1998
	Gross Loans Receivable	**Non-accrued Capitalized Interest**	**Loans Receivable**		Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable
Sovereign							
Cameroon	**379**	**234**	**145**	Peru	673	491	182
Côte d'Ivoire	**235**	**169**	**66**	Cameroon	433	233	200
Russia	**117**	**46**	**71**	Côte d'Ivoire	259	162	97
Congo	**52**	**40**	**12**	Russia	120	47	73
Gabon	**50**	**25**	**25**	Congo	55	43	12
Other	**227**	**53**	**174**	Other	244	62	182
Sub-total	**1,060**	**567**	**493**		1,784	1,038	746
Commercial	**248**	**6**	**242**		145	3	142
Total Impaired	**$1,308**	**$573**	**$735**		$1,929	$1,041	$888
Less: Specific allowance			**402**				421
Net Impaired Loans Receivable			**$333**				$467

During 1999, payments of principal and interest from borrowers for impaired loans were $33 million (1998 – $62 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans

The composition of the allowance for losses on loans is as follows:

($ in millions)		1999				1998
	Sovereign	**Commercial**	**Total**	Sovereign	Commercial	Total
Specific allowance for impaired loans	**191**	**211**	**402**	296	125	421
General allowance	**655**	**1,267**	**1,922**	657	982	1,639
Total	**$846**	**$1,478**	**$2,324**	$953	$1,107	$2,060

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows, which are then discounted using rates inherent in agreements.

The Corporation has significant geographic concentrations in below investment grade countries, as determined by external credit-rating agencies. Seven such countries, as outlined below, represent $4,675 million or 27% of the Corporation's performing loans receivable.

($ in millions)		1999			1998
Country	**Performing Gross Loans Receivable**	**% of Performing Loans**	Country	Performing Gross Loans Receivable	% of Performing Loans
Indonesia	**896**	**5**	Indonesia	845	6
Peru	**741**	**4**	Brazil	707	5
Brazil	**738**	**4**	Mexico	625	4
Mexico	**713**	**4**	Algeria	523	4
Venezuela	**609**	**4**	Venezuela	495	3
Algeria	**527**	**3**	Argentina	290	2
Colombia	**451**	**3**	Turkey	286	2
Total	**$4,675**	**27**	Total	$3,771	26

In addition, the Corporation has a single counterparty loan receivable of $1,151 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

($ in millions)		1999				1998
	Specific	**General**	**Total**	Specific	General	Total
Balance at beginning of year	**421**	**1,639**	**2,060**	488	1,140	1,628
Portfolio growth	**(4)**	**290**	**286**	–	276	276
Credit migration	**–**	**90**	**90**	–	108	108
Net increase/(decrease) in impairment	**21**	**–**	**21**	(71)	–	(71)
Foreign exchange	**(36)**	**(97)**	**(133)**	4	115	119
Balance at end of year	**$402**	**$1,922**	**$2,324**	$421	$1,639	$2,060

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

($ in millions)	1999					1998				
	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $	Fixed $	Yield to Maturity %	Floating $	Spread %	Total $
Sovereign	3,256	8.46	3,027	1.23	6,283	3,279	8.57	2,487	1.33	5,766
Commercial	4,165	7.45	6,842	1.75	11,007	3,334	7.63	5,495	2.03	8,829
Total	$7,421	7.81	$9,869	1.58	$17,290	$6,613	8.01	$7,982	1.83	$14,595

The following reflects the movement of non-accrued capitalized interest during the year:

($ in millions)	1999	1998
Balance at beginning of year	1,255	1,082
Capitalized interest	68	155
Amortization	(69)	(49)
Cash receipts	(2)	0
Foreign exchange	(70)	67
Balance at end of year	$1,182	$1,255

6. Impaired Loans Receivable

The Corporation has $1,308 million impaired gross loans receivable (1998 – $1,929 million) of which $1,060 million is sovereign (1998 – $1,784 million) and $248 million is commercial (1998 – $145 million). The following reflects the movement in the impaired loans portfolio during the year:

($ in millions)	1999	1998
Balance at beginning of year	1,929	1,765
Loans classified as impaired	161	40
Loans reinstated to performing	(647)	–
Capitalized interest	38	112
Principal repayments	(18)	(18)
Receipts from the Government of Canada for sovereign debt relief	(49)	(97)
Foreign exchange	(106)	107
Balance at end of year	$1,308	$1,929

The largest concentrations of gross loans receivable for impaired loans are listed in the following table:

($ in millions)	1999				1998		
	Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable		Gross Loans Receivable	Non-accrued Capitalized Interest	Loans Receivable
Sovereign							
Cameroon	379	234	145	Peru	673	491	182
Côte d'Ivoire	255	189	66	Cameroon	433	233	200
Russia	117	46	71	Côte d'Ivoire	259	162	97
Congo	52	40	12	Russia	120	47	73
Gabon	63	25	38	Congo	55	43	12
Other	227	53	174	Other	244	62	182
Sub-total	1,060	567	493		1,784	1,038	746
Commercial	248	6	242		145	3	142
Total Impaired	$1,308	$573	$735		$1,929	$1,041	$888
Less: Specific allowance			402				421
Net Impaired Loans Receivable			$333				$467

During 1999, payments of principal and interest from borrowers for impaired loans were $33 million (1998 – $62 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans

The composition of the allowance for losses on loans is as follows:

($ in millions)			1999			1998
	Sovereign	Commercial	Total	Sovereign	Commercial	Total
Specific allowance for impaired loans	191	211	402	296	125	421
General allowance	655	1,267	1,922	657	982	1,639
Total	$846	$1,478	$2,324	$953	$1,107	$2,060

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows, which are then discounted using rates inherent in agreements.

The Corporation has significant geographic concentrations in below investment grade countries, as determined by external credit-rating agencies. Seven such countries, as outlined below, represent $4,675 million or 27% of the Corporation's performing loans receivable.

($ in millions)		1999			1998
Country	Performing Gross Loans Receivable	% of Performing Loans	Country	Performing Gross Loans Receivable	% of Performing Loans
Indonesia	896	5	Indonesia	845	6
Peru	741	4	Brazil	707	5
Brazil	738	4	Mexico	625	4
Mexico	713	4	Algeria	523	4
Venezuela	609	4	Venezuela	495	3
Algeria	527	3	Argentina	290	2
Colombia	451	3	Turkey	286	2
Total	$4,675	27	Total	$3,771	26

In addition, the Corporation has a single counterparty loan receivable of $1,151 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

($ in millions)			1999			1998
	Specific	General	Total	Specific	General	Total
Balance at beginning of year	421	1,639	2,060	488	1,140	1,628
Portfolio growth	(4)	290	286	–	276	276
Credit migration	–	90	90	–	108	108
Net increase/(decrease) in impairment	21	–	21	(71)	–	(71)
Foreign exchange	(36)	(97)	(133)	4	115	119
Balance at end of year	$402	$1,922	$2,324	$421	$1,639	$2,060

8. Loan Commitments

The Corporation has undisbursed commitments of $5,345 million (1998 – $5,813 million). Over the next two years, management estimates that the Corporation will disburse 65% of the remaining undisbursed commitments.

The projected disbursement of the loan commitments is as follows:

($ in millions)	1999		1998	
Year	Projected Disbursements	%	Projected Disbursements	%
1999	–	–	2,734	47
2000	2,798	52	1,033	18
2001	706	13	353	6
2002 and beyond	1,841	35	1,693	29
Total	$5,345	100	$5,813	100

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

($ in millions)	1999				1998			
	Fixed $	Spot Yield %	Floating $	Spread %	Fixed $	Spot Yield %	Floating $	Spread %
Sovereign	1,891	8.28	215	2.72	2,158	8.47	502	2.54
Commercial	71	8.55	3,168	1.83	63	8.28	3,090	2.03
Total	$1,962	8.29	$3,383	1.89	$2,221	8.47	$3,592	2.10

9. Contingent Liabilities

As at December 31, the Corporation has insurance policies and guarantees outstanding of $12,721 million (1998 – $11,794 million) which mature as follows:

($ in millions)	1999	1998
Short-term program	7,147	6,850
Medium-term program		
1999	–	589
2000	1,036	872
2001	963	744
2002	298	242
2003	1,721	1,373
2004	283	91
2005–2009	785	531
2010 and beyond	488	502
Total	$12,721	$11,794

The major concentrations by location of ultimate risk are as follows:

($ in millions)	1999				1998		
	Short-term	Medium-term	Total		Short-term	Medium-term	Total
U.S.	2,821	1,367	4,188	U.S.	2,538	1,377	3,915
Canada	1,036	1,102	2,138	Canada	1,024	674	1,698
Brazil	419	281	700	Brazil	353	301	654
China	217	174	391	China	226	153	379
U.K.	141	182	323	U.K.	155	224	379
Other	2,513	2,468	4,981	Other	2,554	2,215	4,769
Total	$7,147	$5,574	$12,721	Total	$6,850	$4,944	$11,794

Reinsurance of $520 million (1998 – $179 million) has been deducted from the insurance policies outstanding.

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	1999	1998
Balance at beginning of year	44	28
Claims paid	134	72
Claims recovered	(17)	(19)
Re-evaluation of recoverable claims	[illegible]	(39)
Foreign exchange	[illegible]	2
Balance at end of year	$77	$44

Of the $134 million in claim payments made during 1999, 78% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)	1999			1998	
	Claims Paid	Claims Recovered		Claims Paid	Claims Recovered
U.S.	34	7	U.S.	21	5
Russia	27	–	Italy	10	8
Hong Kong	18	–	Mexico	9	2
China	10	–	India	5	–
Brazil	8	1	Canada	4	1
Other	30	9	Other	23	3
Total	$134	$17	Total	$72	$19

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

($ in millions)	1999	1998
Balance at beginning of year	436	336
Provision for claims on insurance	133	88
Provision for loan guarantees	(7)	32
Re-evaluation of recoverable claims	[illegible]	(39)
Foreign exchange	[illegible]	19
Balance at end of year	$454	$436

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	1999	1998
Provision for losses on loans	387	313
Provision for claims on insurance	133	88
Provision for loan guarantees	(7)	32
Provision for Credit Losses	[illegible]	$433

8. Loan Commitments

The Corporation has undisbursed commitments of $5,345 million (1998 – $5,813 million). Over the next two years, management estimates that the Corporation will disburse 65% of the remaining undisbursed commitments.

The projected disbursement of the loan commitments is as follows:

($ in millions)	1999		1998	
Year	**Projected Disbursements**	**%**	Projected Disbursements	%
1999	**–**	**–**	2,734	47
2000	**2,798**	**52**	1,033	18
2001	**706**	**13**	353	6
2002 and beyond	**1,841**	**35**	1,693	29
Total	**$5,345**	**100**	$5,813	100

Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

($ in millions)	1999				1998			
	Fixed $	**Spot Yield %**	**Floating $**	**Spread %**	Fixed $	Spot Yield %	Floating $	Spread %
Sovereign	**1,891**	**8.35**	**215**	**2.72**	2,158	8.47	502	2.54
Commercial	**71**	**6.83**	**3,168**	**1.83**	63	8.28	3,090	2.03
Total	**$1,962**	**8.29**	**$3,383**	**1.88**	$2,221	8.47	$3,592	2.10

9. Contingent Liabilities

As at December 31, the Corporation has insurance policies and guarantees outstanding of $12,721 million (1998 – $11,794 million) which mature as follows:

($ in millions)	1999	1998
Short-term program	**7,147**	6,850
Medium-term program		
1999	**–**	589
2000	**1,058**	872
2001	**963**	744
2002	**299**	242
2003	**1,721**	1,373
2004	**283**	91
2005–2009	**795**	531
2010 and beyond	**455**	502
Total	**$12,721**	$11,794

The major concentrations by location of ultimate risk are as follows:

($ in millions)	1999				1998		
	Short-term	**Medium-term**	**Total**		Short-term	Medium-term	Total
U.S.	**2,821**	**1,367**	**4,188**	U.S.	2,538	1,377	3,915
Canada	**1,036**	**1,102**	**2,138**	Canada	1,024	674	1,698
Brazil	**419**	**281**	**700**	Brazil	353	301	654
China	**217**	**174**	**391**	China	226	153	379
U.K.	**141**	**182**	**323**	U.K.	155	224	379
Other	**2,513**	**2,468**	**4,981**	Other	2,554	2,215	4,769
Total	**$7,147**	**$5,574**	**$12,721**	Total	$6,850	$4,944	$11,794

Reinsurance of $520 million (1998 – $179 million) has been deducted from the insurance policies outstanding.

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

($ in millions)	**1999**	1998
Balance at beginning of year	**44**	28
Claims paid	**134**	72
Claims recovered	**(17)**	(19)
Re-evaluation of recoverable claims	**(82)**	(39)
Foreign exchange	**(2)**	2
Balance at end of year	**$77**	$44

Of the $134 million in claim payments made during 1999, 78% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

($ in millions)		**1999**			1998
	Claims Paid	**Claims Recovered**		Claims Paid	Claims Recovered
U.S.	**34**	**7**	U.S.	21	5
Russia	**27**	**–**	Italy	10	8
Hong Kong	**18**	**–**	Mexico	9	2
China	**10**	**–**	India	5	–
Brazil	**6**	**1**	Canada	4	1
Other	**39**	**9**	Other	23	3
Total	**$134**	**$17**	Total	$72	$19

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

($ in millions)	**1999**	1998
Balance at beginning of year	**436**	336
Provision for claims on insurance	**133**	88
Provision for loan guarantees	**(7)**	32
Re-evaluation of recoverable claims	**(82)**	(39)
Foreign exchange	**(26)**	19
Balance at end of year	**$454**	$436

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

($ in millions)	**1999**	1998
Provision for losses on loans	**397**	313
Provision for claims on insurance	**133**	88
Provision for loan guarantees	**(7)**	32
Provision for Credit Losses	**$523**	$433

12. Loans Payable

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. EDC uses derivative contracts and structured notes to minimize the cost of capital and also for asset/liability management purposes.

Loans Payable

Loans payable are comprised as follows:

($ in millions)	1999	1998
Short-term payables	3,765	4,072
Long-term payables		
– due within current year	3,029	2,269
– over one year	9,531	6,256
Total long-term payables	12,560	8,525
Sub-total	16,325	12,597
Plus: unamortized discounts and premiums	8	13
deferrals	15	26
Total Loans Payable	$16,348	$12,636

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cash flow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument (in the case of discounts and premiums) or over the life of the replacement instrument (in the case of deferrals).

Accrued Interest

Accrued interest reflects corporate cash flow obligations and rights. Accrued interest is comprised of the following:

($ in millions)	1999	1998
Short-term	53	31
Long-term	644	434
Total Accrued Interest Payable	$697	$465

Structured Notes

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)	1999	1998
Equity index	788	621
Dual currency	984	1,600
Callable/extendible	1,446	654
Barrier	240	580
Other	180	424
Total	$3,638	$3,879

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Debt Instrument Maturities

The following table shows how EDC has used derivative financial instruments to manage interest rate exposure on debt instruments:

($ in millions)				1999		1998
Year of Maturity	[illegible]	[illegible]	Net	Yield* (%)	Net	Yield* (%)
Fixed Rate Issues						
1999	[illegible]	–	–	–	842	7.37
2000	[illegible]	[illegible]	[illegible]	[illegible]	306	8.63
2001	[illegible]	[illegible]	[illegible]	[illegible]	–	–
2002	[illegible]	[illegible]	[illegible]	[illegible]	153	7.75
2003	[illegible]	[illegible]	[illegible]	6.81	923	6.81
2004	[illegible]	[illegible]	–	–	–	–
2005 to 2009	[illegible]	[illegible]	–	–	–	–
2010 and beyond	704	[illegible]	287	[illegible]	272	8.55
Sub-total	10,491	[illegible]	2,718	7.49	2,496	7.71
Floating Rate Issues						
1999	–	–	–		5,474	
2000	4,431	1,920	6,351		1,416	
2001	808	361	1,169		792	
2002	–	1,077	1,077		575	
2003	109	257	366		219	
2004	24	1,580	1,604		90	
2005 to 2009	236	1,989	2,225		1,078	
2010 and beyond	89	430	519		394	
Sub-total	5,737	7,574	13,311	5.63	10,038	4.75
Total	$16,228	$(202)	$16,026		$12,534	

* *Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.*

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1998 – 9.8 million). No shares were issued in 1999 (1998 – nil).

15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

12. Loans Payable

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. EDC uses derivative contracts and structured notes to minimize the cost of capital and also for asset/liability management purposes.

Loans Payable

Loans payable are comprised as follows:

($ in millions)	**1999**	1998
Short-term payables	**3,705**	4,072
Long-term payables		
– due within current year	**2,992**	2,269
– over one year	**9,531**	6,256
Total long-term payables	**12,523**	8,525
Sub-total	**16,228**	12,597
Plus: unamortized discounts and premiums	**5**	13
deferrals	**15**	26
Total Loans Payable	**$16,248**	$12,636

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cash flow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument (in the case of discounts and premiums) or over the life of the replacement instrument (in the case of deferrals).

Accrued Interest

Accrued interest reflects corporate cash flow obligations and rights. Accrued interest is comprised of the following:

($ in millions)	**1999**	1998
Short-term	**53**	31
Long-term	**644**	434
Total Accrued Interest Payable	**$697**	$465

Structured Notes

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

($ in millions)	**1999**	1998
Equity index	**788**	621
Dual currency	**984**	1,600
Callable/extendible	**1,446**	654
Barrier	**240**	580
Other	**180**	424
Total	**$3,638**	$3,879

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Debt Instrument Maturities

The following table shows how EDC has used derivative financial instruments to manage interest rate exposure on debt instruments:

($ in millions)				1999		1998
Year of Maturity	**Issues**	**Swap Contracts**	**Net**	**Yield* (%)**	Net	Yield* (%)
Fixed Rate Issues						
1999	**–**	**–**	**–**	**–**	842	7.37
2000	**2,267**	**(1,978)**	**289**	**8.63**	306	8.63
2001	**793**	**(360)**	**433**	**6.25**	–	–
2002	**1,940**	**(1,074)**	**866**	**6.40**	153	7.75
2003	**1,073**	**(203)**	**870**	**6.81**	923	6.81
2004	**1,590**	**(1,590)**	**–**	**–**	–	–
2005 to 2009	**2,084**	**(2,084)**	**–**	**–**	–	–
2010 and beyond	**744**	**(487)**	**257**	**8.55**	272	8.55
Sub-total	**10,491**	**(7,776)**	**2,715**	**7.49**	2,496	7.71
Floating Rate Issues						
1999	**–**	**–**	**–**		5,474	
2000	**4,431**	**1,920**	**6,351**		1,416	
2001	**808**	**361**	**1,169**		792	
2002	**–**	**1,077**	**1,077**		575	
2003	**159**	**207**	**366**		219	
2004	**24**	**1,580**	**1,604**		90	
2005 to 2009	**226**	**1,999**	**2,225**		1,078	
2010 and beyond	**89**	**430**	**519**		394	
Sub-total	**5,737**	**7,574**	**13,311**	**5.63**	10,038	4.75
Total	**$16,228**	**$(202)**	**$16,026**		$12,534	

* *Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.*

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share Capital

The authorized share capital is $1.5 billion consisting of 15 million shares with a par value of $100 each. The number of shares issued and fully paid is 9.8 million (1998 – 9.8 million). No shares were issued in 1999 (1998 – nil).

15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

($ in millions)								**1999**		1998
	Assets			**Liabilities**			**Net Foreign Currency**		Net Foreign Currency	
	Gross	**D.F.I.***	**Net**	**Gross**	**D.F.I.***	**Net**	**Exposure**	**Rate**	Exposure	Rate
U.S. Dollars	**14,913**	**483**	**15,396**	**(8,561)**	**(6,852)**	**(15,413)**	**(17)**	**1.4433**	3	1.5305
British Pounds	**891**	**(11)**	**880**	**(760)**	**(118)**	**(878)**	**2**	**2.3314**	30	2.5448
Euro	**608**	**(15)**	**593**	**(1,125)**	**533**	**(592)**	**1**	**1.4525**	N/A	N/A
Deutsche Marks**									31	0.9184
European Currency Units**									3	1.7959
Netherlands Guilder**									1	0.8155
Italian Lira**									(1)	0.0009
Australian Dollars	**9**	**(9)**	**–**	**(95)**	**95**	**–**	**–**	**0.9482**	–	0.9387
Swiss Francs	**–**	**–**	**–**	**(24)**	**24**	**–**	**–**	**0.9064**	–	1.1143
Hong Kong Dollars	**–**	**–**	**–**	**(93)**	**93**	**–**	**–**	**0.1857**	–	0.1976
Japanese Yen	**38**	**(38)**	**–**	**(838)**	**838**	**–**	**–**	**0.0141**	–	0.0136
Norwegian Krone	**4**	**–**	**4**	**–**	**(4)**	**(4)**	**–**	**0.1801**	–	0.2026
New Zealand Dollars	**14**	**–**	**14**	**(189)**	**175**	**(14)**	**–**	**0.7547**	–	0.8060
South African Rand	**–**	**–**	**–**	**(39)**	**39**	**–**	**–**	**0.2347**	–	0.2600

* *"Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.*

** *As at January 1, 1999, these exposures were included as part of the Euro exposure.*

The Corporation incurred a foreign exchange loss of $11.9 million in 1999 (1998 – gain of $12.9 million). This amount is included in interest expense. Throughout the year, EDC carried net asset exposures primarily in U.S. dollars, British pounds and Euros. In 1999, the portion of the total foreign exchange loss attributable to U.S. dollars was $4 million (1998 – gain of $9.9 million) and to British pounds was $2.5 million (1998 – gain of $1.9 million) and to Euros was $5 million (1998 – n/a).

16. Derivative Financial Instruments

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. Treasury policy and guidelines limit the use of derivatives. EDC does not utilize derivatives for speculative purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity index swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward rate agreements – short-term contracts between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts, which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, and (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by contracting only with financial institutions having minimum original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1998 – $20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31 are listed below:

($ in millions)					**1999**	1998
	Remaining Term to Maturity					
	Under 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total**	Total
Currency swaps	**2,240**	**1,739**	**1,159**	**2,492**	**7,630**	4,630
Interest rate swaps	**688**	**1,646**	**635**	**155**	**3,124**	1,902
Foreign exchange contracts	**3,153**	**–**	**–**	**–**	**3,153**	1,662
Total derivative financial instruments	**$6,081**	**$3,385**	**$1,794**	**$2,647**	**$13,907**	$8,194
Fair Value of Derivative Financial Instruments						
Positive	**364**	**157**	**69**	**116**	**706**	589
Negative	**(90)**	**(25)**	**(63)**	**(76)**	**(254)**	(187)

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair Value of Financial Instruments

The following chart outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined on the following page do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

($ in millions)	1999								1998	
	Assets			Liabilities			Net Foreign Currency Exposure	Rate	Net Foreign Currency Exposure	Rate
	Gross	D.F.I.*	Net	Gross	D.F.I.*	Net				
U.S. Dollars	14,913	483	15,396	(8,881)	[illegible]	(15,413)	(17)	1.4433	3	1.5305
British Pounds	891	(11)	880	(766)	(112)	(878)	2	2.3314	30	2.5448
Euro	608	(15)	593	(1,105)	513	(592)	1	1.4525	N/A	N/A
Deutsche Marks**									31	0.9184
European Currency Units**									3	1.7959
Netherlands Guilder**									1	0.8155
Italian Lira**									(1)	0.0009
Australian Dollars	9	(9)	–	(95)	95	–	–	0.9482	–	0.9387
Swiss Francs	–	–	–	(24)	24	–	–	0.9064	–	1.1143
Hong Kong Dollars	–	–	–	(93)	93	–	–	0.1857	–	0.1976
Japanese Yen	38	(38)	–	(838)	838	–	–	0.0141	–	0.0136
Norwegian Krone	4	–	4	–	(4)	(4)	–	0.1801	–	0.2026
New Zealand Dollars	14	–	14	(189)	175	(14)	–	0.7547	–	0.8060
South African Rand	–	–	–	(39)	39	–	–	0.2347	–	0.2600

* *"Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.*

** *As at January 1, 1999, these exposures were included as part of the Euro exposure.*

The Corporation incurred a foreign exchange loss of $11.9 million in 1999 (1998 – gain of $12.9 million). This amount is included in interest expense. Throughout the year, EDC carried net asset exposures primarily in U.S. dollars, British pounds and Euros. In 1999, the portion of the total foreign exchange loss attributable to U.S. dollars was $4 million (1998 – gain of $9.9 million) and to British pounds was $2.5 million (1998 – gain of $1.9 million) and to Euros was $5 million (1998 – n/a).

16. *Derivative Financial Instruments*

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. Treasury policy and guidelines limit the use of derivatives. EDC does not utilize derivatives for speculative purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity index swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward rate agreements – short-term contracts between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts, which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, and (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by contracting only with financial institutions having minimum original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed $20 million. Accordingly, an allowance for credit risk of $20 million (1998 – $20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31 are listed below:

($ in millions)					1999	1998
	Remaining Term to Maturity					
	Under 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Total
Currency swaps	2,268	1,728	1,169	2,482	7,620	4,630
Interest rate swaps	[illegible]	1,846	683	155	3,124	1,902
Foreign exchange contracts	3,153	–	–	–	3,153	1,662
Total derivative financial instruments	$6,061	$3,565	$1,784	$2,647	$13,957	$8,194
Fair Value of Derivative Financial Instruments						
Positive	384	157	69	116	706	589
Negative	(90)	(25)	(63)	(76)	(254)	(187)

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair Value of Financial Instruments

The following chart outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined on the following page do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

($ in millions)	**1999**		1998	
Balance Sheet Financial Instruments	**Book Value**	**Fair Value**	Book Value	Fair Value
Cash and marketable securities:				
Fixed rate securities	**495**	**495**	436	444
Floating rate securities	**2,756**	**2,756**	975	975
Investments	**168**	**155**	332	342
Loans receivable:				
Performing fixed rate	**6,912**	**7,362**	6.432	6.862
Performing floating rate	**8,138**	**9,475**	6.532	7,678
Impaired	**333**	**333**	467	467
Total	**$18,802**	**$20,576**	$15,174	$16,768
Accounts payable	**92**	**92**	133	133
Loans payable:				
Fixed rate	**11,188**	**11,274**	8.650	9.033
Floating rate	**5,737**	**5,737**	4.412	4.412
Total	**$17,017**	**$17,103**	$13.195	$13.578

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of items such as deferrals which do not have a fair value.

($ in millions)	**1999**	1998
Off-Balance Sheet Financial Instruments	**Fair Value**	Fair Value
Currency swap contracts	**351**	272
Interest rate swap contracts	**21**	124
Foreign exchange contracts	**80**	6
Undisbursed loan commitments:		
Fixed rate	**67**	175
Floating rate	**(68)**	(113)

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at December 31. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at December 31 as issued by Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

($ in millions)	1999		1998	
Balance Sheet Financial Instruments	Book Value	Fair Value	Book Value	Fair Value
Cash and marketable securities:				
Fixed rate securities	[illegible]	[illegible]	436	444
Floating rate securities	[illegible]	[illegible]	975	975
Investments	188	188	332	342
Loans receivable:				
Performing fixed rate	6,912	7,302	6,432	6,862
Performing floating rate	8,138	9,475	6,532	7,678
Impaired	333	334	467	467
Total	$18,802	$20,576	$15,174	$16,768
Accounts payable	92	92	133	133
Loans payable:				
Fixed rate	11,188	11,274	8,650	9,033
Floating rate	5,737	5,737	4,412	4,412
Total	$17,017	$17,103	$13,195	$13,578

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of items such as deferrals which do not have a fair value.

($ in millions)	1999	1998
Off-Balance Sheet Financial Instruments	Fair Value	Fair Value
Currency swap contracts	361	272
Interest rate swap contracts	21	124
Foreign exchange contracts	80	6
Undisbursed loan commitments:		
Fixed rate	67	175
Floating rate	(68)	(113)

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments reprice frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at December 31. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at December 31 as issued by Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

18. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada pays the Corporation an amount equal to the debt relief granted to the Corporation's sovereign borrowers by the Paris Club. Amounts received for debt relief arrangements on sovereign impaired loans are credited to the book value of the loans similar to the treatment accorded other receipts on impaired loans. To the extent that amounts received exceed the book value of the loans, interest income is recorded.

During 1999, the Corporation received from the Government of Canada $59 million (1998 – $97 million) for principal pursuant to debt relief arrangements.

In addition, the Corporation has loans receivable of $630 million and undisbursed commitments of $867 million, for which it has recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

The Corporation is in the process of withdrawing from the *Public Service Superannuation Act*, and establishing its own defined benefit pension plan, registered under the *Pension Benefits Standards Act*. It is expected that the withdrawal process and the establishment of a separate plan will be substantially completed during 2000 and will not materially impact the financial position of the Corporation.

19. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and legislative authorities which underlie them have come to be known collectively as the "Canada Account." The Board of Directors is only responsible for ensuring that the transactions made by the Corporation under the Canada Account are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to $2,749 million at December 31, 1999 (1998 – $3,038 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of $13 billion. The position against this limit, determined in accordance with the requirements of the Act, is $5,133 million (1998 – $5,650 million). Reinsurance of $59 million has been deducted from the insurance policies in force.

The Corporation retained $25 million (1998 – $22 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

20. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect EDC, including those related to customers, suppliers, or other third parties, have been fully resolved.

21. Reclassification of Comparative Figures

Certain 1998 comparative figures have been reclassified to conform to the presentation adopted in 1999.

Balance Sheets

as at December 31

($ in millions)	1999	1998	1997	1996	1995
Gross loans receivable	[illegible]	16,524	12,373	10,504	9,910
Less: non-accrued capitalized interest	[illegible]	1,255	1,082	998	927
Less: allowance for losses on loans	[illegible]	2,060	1,628	1,423	1,233
Less: deferred loan revenue	[illegible]	220	207	160	155
Net loans receivable	[illegible]	12,989	9,456	7,923	7,595
Cash and investments	[illegible]	1,730	1,927	1,444	1,459
Accrued interest and other assets*	[illegible]	761	262	214	214
Total assets	[illegible]	$15,480	$11,645	$9,581	$9,268
Loans payable*	[illegible]	12,636	9,556	7,735	7,668
Accrued interest and other liabilities*	[illegible]	728	208	189	223
Allowance for claims on insurance and guarantees	[illegible]	436	336	240	204
Total liabilities	[illegible]	13,800	10,100	8,164	8,095
Share capital	[illegible]	983	983	983	851
Retained earnings	[illegible]	697	562	434	322
Shareholder's equity	[illegible]	1,680	1,545	1,417	1,173
Total liabilities and shareholder's equity	[illegible]	$15,480	$11,645	$9,581	$9,268

** Figures prior to 1998 were not restated to reflect certain reclassifications made in 1998 and 1999 as the information was not reasonably determinable.*

Income Statements

for the year ended December 31

($ in millions)	[illegible]	1998	1997	1996	1995
Interest income – loans	[illegible]	1,055	782	688	813
Interest income – marketable securities and investments	145	126	92	99	87
Less: interest expense	756	642	481	437	485
Net interest income	[illegible]	539	393	350	415
Insurance premiums and guarantee fees	133	110	99	92	76
Provision for credit losses	[illegible]	433	295	270	390
Income after provision for credit losses	218	216	197	172	101
Administrative expenses	100	81	69	60	57
Net income	$118	$135	$128	$112	$44

Corporate Account

Financial Arrangements Facilitated

($ in millions)	1999	1998	1997	1996	1995
Export Financing					
Direct financing	[illegible]	6,639	5,454	3,678	2,142
Export Insurance					
Short-term insurance	[illegible]	23,990	20,332	15,756	13,044
Medium-term insurance	[illegible]	3,933	2,629	2,464	1,954
Guarantees	[illegible]	189	221	132	97
Sub-total	[illegible]	28,112	23,182	18,352	15,095
Total	[illegible]	$34,751	$28,636	$22,030	$17,237

Financial and Other Data

	1999	1998	1997	1996	1995
Export Financing					
Number of transactions financed	372	351	242	172	140
Number of loans receivable	[illegible]	894	810	801	759
Value of total obligations on loans receivable	[illegible]	16,524	12,489	10,517	9,920
Number of undisbursed loans	[illegible]	255	216	216	201
Value of undisbursed loans	[illegible]	5,813	6,482	2,863	1,854
Value of disbursements to exporters*	[illegible]	5,822	3,295	2,437	2,187
Value of liability on loan guarantees	[illegible]	1,723	416	347	257
Undisbursed amounts on loan guarantees	[illegible]	150	145	85	88
Number of current lines of credit and protocols	[illegible]	52	44	50	46
Amounts available for allocation	[illegible]	1,320	1,356	1,570	1,719
Loan amounts rescheduled	[illegible]	237	158	464	442
Loan amounts written off	–	–	18	–	–
Export Insurance					
Number of policies issued	[illegible]	3,345	3,021	2,591	2,040
Number of insurance policies and guarantees outstanding	[illegible]	6,272	5,352	4,404	3,446
Value of liability on insurance and guarantees	[illegible]	9,921	8,163	7,000	5,869
Value of claims paid	134	72	43	60	28
Value of claims recovered/rescheduled	17	19	16	11	8
Value of claims under consideration at end of year	38	62	15	14	17
Average employee strength during year	770	698	650	602	557

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* *Figures prior to 1999 are restated to conform with current presentation.*

Five-Year Review

Balance Sheets

as at December 31

($ in millions)	**1999**	1998	1997	1996	1995
Gross loans receivable	**18,598**	16,524	12,373	10,504	9,910
Less: non-accrued capitalized interest	**1,182**	1,255	1,082	998	927
Less: allowance for losses on loans	**2,324**	2,060	1,628	1,423	1,233
Less: deferred loan revenue	**248**	220	207	160	155
Net loans receivable	**14,844**	12,989	9,456	7,923	7,595
Cash and investments	**3,398**	1,730	1,927	1,444	1,459
Accrued interest and other assets*	**1,181**	761	262	214	214
Total assets	**$19,423**	$15,480	$11,645	$9,581	$9,268
Loans payable*	**16,248**	12,636	9,556	7,735	7,668
Accrued interest and other liabilities*	**923**	728	208	189	223
Allowance for claims on insurance and guarantees	**454**	436	336	240	204
Total liabilities	**17,625**	13,800	10,100	8,164	8,095
Share capital	**983**	983	983	983	851
Retained earnings	**815**	697	562	434	322
Shareholder's equity	**1,798**	1,680	1,545	1,417	1,173
Total liabilities and shareholder's equity	**$19,423**	$15,480	$11,645	$9,581	$9,268

* *Figures prior to 1998 were not restated to reflect certain reclassifications made in 1998 and 1999 as the information was not reasonably determinable.*

Income Statements

for the year ended December 31

($ in millions)	**1999**	1998	1997	1996	1995
Interest income – loans	**1,258**	1,055	782	688	813
Interest income – marketable securities and investments	**146**	126	92	99	87
Less: interest expense	**796**	642	481	437	485
Net interest income	**608**	539	393	350	415
Insurance premiums and guarantee fees	**133**	110	99	92	76
Provision for credit losses	**523**	433	295	270	390
Income after provision for credit losses	**218**	216	197	172	101
Administrative expenses	**100**	81	69	60	57
Net income	**$118**	$135	$128	$112	$44

Corporate Account

Financial Arrangements Facilitated

($ in millions)	**1999**	1998	1997	1996	1995
Export Financing					
Direct financing	**6,060**	6,639	5,454	3,678	2,142
Export Insurance					
Short-term insurance	**27,625**	23,990	20,332	15,756	13,044
Medium-term insurance	**5,914**	3,933	2,629	2,464	1,954
Guarantees	**456**	189	221	132	97
Sub-total	**33,995**	28,112	23,182	18,352	15,095
Total	**$40,055**	$34,751	$28,636	$22,030	$17,237

Financial and Other Data

Export Financing

Number of transactions financed	**372**	351	242	172	140
Number of loans receivable	**990**	894	810	801	759
Value of total obligations on loans receivable	**18,598**	16,524	12,469	10,517	9,920
Number of undisbursed loans	**283**	255	216	216	201
Value of undisbursed loans	**5,345**	5,813	6,482	2,863	1,854
Value of disbursements to exporters*	**6,374**	5,822	3,295	2,437	2,187
Value of liability on loan guarantees	**1,643**	1,723	416	347	257
Undisbursed amounts on loan guarantees	**123**	150	145	85	88
Number of current lines of credit and protocols	**55**	52	44	50	46
Amounts available for allocation	**1,659**	1,320	1,356	1,570	1,719
Loan amounts rescheduled	**720**	237	158	464	442
Loan amounts written off	**–**	–	18	–	–

Export Insurance

Number of policies issued	**3,879**	3,345	3,021	2,591	2,040
Number of insurance policies and guarantees outstanding	**7,190**	6,272	5,352	4,404	3,446
Value of liability on insurance and guarantees	**10,955**	9,921	8,163	7,000	5,869
Value of claims paid	**134**	72	43	60	28
Value of claims recovered/rescheduled	**17**	19	16	11	8
Value of claims under consideration at end of year	**38**	62	15	14	17
Average employee strength during year	**778**	698	650	602	557

* *Figures prior to 1999 are restated to conform with current presentation.*

Canada Account

Financial Arrangements Facilitated

($ in millions)	**1999**	1998	1997	1996	1995
Export Financing					
Direct financing	**67**	9	1.584	131	430
Export Insurance					
Short-term insurance	**–**	–	–	6	4
Medium-term insurance	**247**	497	283	299	281
Guarantees	**–**	12	34	–	–
Sub-total	**247**	509	317	305	285
Total	**$314**	$518	$1.901	$436	$715

Financial and Other Data

Export Financing

	1999	1998	1997	1996	1995
Number of transactions financed	**12**	5	7	29	26
Number of loans receivable	**304**	301	297	291	258
Value of total obligations on loans receivable	**2,599**	2.904	2.799	2.753	2.677
Number of undisbursed loans	**57**	69	81	96	88
Value of undisbursed loans	**183**	194	309	373	598
Value of disbursements to exporters*	**66**	100	112	171	437
Number of current lines of credit and protocols	**2**	2	1	1	3
Amounts available for allocation	**73**	87	20	20	93
Loan amounts rescheduled	**45**	45	136	9	17

Export Insurance

	1999	1998	1997	1996	1995
Number of policies issued	**4**	12	12	7	10
Number of insurance policies and guarantees outstanding	**20**	25	23	22	24
Value of liability on insurance and guarantees	**199**	299	241	456	486
Value of claims paid	**8**	4	6	–	23
Value of claims recovered	**–**	7	–	4	6

* *Figures prior to 1999 are restated to conform with current presentation.*

Canada Account

Financial Arrangements Facilitated

($ in millions)	1999	1998	1997	1996	1995
Export Financing					
Direct financing	67	9	1,584	131	430
Export Insurance					
Short-term insurance	–	–	–	6	4
Medium-term insurance	247	497	283	299	281
Guarantees	–	12	34	–	–
Sub-total	247	509	317	305	285
Total	$314	$518	$1,901	$436	$715

Financial and Other Data

	1999	1998	1997	1996	1995
Export Financing					
Number of transactions financed	12	5	7	29	26
Number of loans receivable	304	301	297	291	258
Value of total obligations on loans receivable	2,580	2,904	2,799	2,753	2,677
Number of undisbursed loans	57	69	81	96	88
Value of undisbursed loans	183	194	309	373	598
Value of disbursements to exporters*	66	100	112	171	437
Number of current lines of credit and protocols	2	2	1	1	3
Amounts available for allocation	73	87	20	20	93
Loan amounts rescheduled	45	45	136	9	17
Export Insurance					
Number of policies issued	4	12	12	7	10
Number of insurance policies and guarantees outstanding	20	25	23	22	24
Value of liability on insurance and guarantees	190	299	241	458	486
Value of claims paid	8	4	6	–	23
Value of claims recovered	–	7	–	4	6

* *Figures prior to 1999 are restated to conform with current presentation.*

Members of the Board of Directors

Mr. W.R.C. Blundell
Corporate Director
Toronto, Ontario

Ms. Dorothy E. Byrne, Q.C.
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Mr. A. Ian Gillespie
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Mr. Robert J. Holt
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Ms. Joy F. Kane
Assistant Deputy Minister
International Trade and Finance Branch
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Mr. Patrick J. Lavelle
Chairman of the Board
Export Development Corporation
Toronto, Ontario

Mr. Pierre MacDonald
President and Chief Executive Officer
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Verdun, Quebec

Mr. James A. Pattillo
President
Pattillo Capital Corporation
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Mr. Raymond C. Setlakwe, Q.C.
President and Chief Executive Officer
A. Setlakwe Ltée
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Ms. Grace S. White
President and Chief Executive Officer
CanJam Trading Ltd.
Dartmouth, Nova Scotia

Mr. Dennis Wood
Chairman, President and Chief Executive Officer
C-MAC Industries Inc.
Montreal, Quebec

Mr. Robert G. Wright
Deputy Minister for International Trade
Ottawa, Ontario

1 Vacancy

Leadership

EDC's Corporate Governance Practices

EDC's Board of Directors is committed to ensuring its corporate governance practices are open and effective, and the Board is fully accountable.

In 1999, recognizing the need to ensure that EDC's governance practices were keeping pace with increasing demands for performance and accountability, and evolving beyond mere compliance with Guidelines as set out by the Treasury Board in its publication, *Corporate Governance in Crown Corporations and Other Public Enterprises*, the Corporate Governance Committee decided to undertake a comprehensive review of past and current practices.

In March 1999, the Committee oversaw an in-depth analysis of directors' responses to a 1999 corporate governance survey: comparing responses to the previous year, and noting areas of perceived progress; codifying responses provided each year in respect of the Treasury Board Guidelines, and indicating suggestions made and follow-up action undertaken; and identifying areas of significant gaps, and determining a course of action to address each one.

INITIATIVES

In doing so, it became apparent that EDC's Board of Directors was already effectively assuming the stewardship of the Corporation – actively involved in the corporate and strategic planning processes, and diligently ensuring that the principal risks of the Corporation are identified, and appropriate information systems and management practices are in place to manage these risks – and it was ably assisted by an effective network of committees of the Board, each assuming responsibilities for specific aspects of EDC's operations and business. In fulfilling its responsibilities, during 1999 the Board and its seven committees held an aggregate of 48 meetings.

This comprehensive review also provided insights into areas of responsibility that could be improved upon, and as a result significant initiatives were undertaken and completed in 1999 that further enhanced EDC's corporate governance practices, bringing them into full compliance with almost all of the Guidelines, and beyond compliance with some, as indicated below:

Board Stewardship

With respect to its key responsibility, that of the stewardship of the Corporation, major initiatives were undertaken in 1999.

Strategic Direction: Throughout the year, the Board carefully monitored EDC's legislative review process, considering and responding to recommendations arising from the *Report on the Review of the Export Development Act*. In August, it held a full-day strategic planning session, validating the continuing relevancy of EDC's mandate, strategic direction and commercial principles, as confirmed by the Report. In October, it approved a progressive

Corporate Plan 2000–2004, charting a greater leadership role for EDC in the Canadian economy, detailing strategies to enable EDC to achieve its ambitious corporate objective to "create and deliver capacity, capability and opportunities in support of Canadian companies pursuing international business," and determining measures to evaluate corporate performance.

Identifying Risks: In terms of ensuring the principal risks of the Corporation's business have been identified, and appropriate systems are in place to monitor and manage these risks, two major initiatives were undertaken and completed. In 1999, in addition to assuming its regular oversight responsibilities, plus focussing on the state of EDC's readiness for Year 2000, the Audit Committee oversaw a Special Examination of EDC by the Auditor General of Canada that examined the financial and management control and information systems and management practices maintained by the Corporation, culminating in August with EDC receiving from the Auditor General an unqualified Special Examination opinion that "there is reasonable assurance that there are no significant deficiencies in the systems and practices examined."

Then in December, following intensive work throughout the year on the part of the newly created Risk Management Committee and EDC management, with the assistance of expert outside consultants, the Board approved a new *Credit Risk Policy Manual* based on "best practices" in both private- and public-sector financial institutions. This concluded the first phase of EDC's adoption of enterprise-wide risk management policies, the Special Examination Report stating that:

> "The introduction of the Risk Management Committee of the Board in May 1998 lends itself to effective governance of the risk management process and moves the Corporation closer to best practices in this area. The intended change in focus of Board involvement from a transactional review process to a higher level, enterprise-wide risk management will further improve the oversight and governance at the most senior level of the Corporation."

Succession Planning: Recognizing the need to ensure skilled management will be available for the ongoing and longer-term fulfillment of the Corporation's mandate, the Human Resources Committee oversaw the development and implementation of a leadership development program for EDC managers, the identification of critical management positions in the Corporation, and the preliminary assessment of EDC's current talent against future requirements. It also noted several key managerial positions filled during the year.

Board Requirements: In its continuing efforts to ensure information systems and management practices meet Board needs, and generate confidence in the integrity of the information produced, the Audit Committee actively oversaw EDC's financial reporting, information systems and internal controls, including the development of new systems critical to operations of EDC, with the Board reviewing corporate performance and financial results on a quarterly basis. Accordingly, the 1999 survey indicated that directors felt that appropriate internal controls and management information systems were in place.

Public Policy Objectives: With the legislative review taking place, and the *Report on the Review of the Export Development Act* being issued, 1999 was a pivotal year for the Board to focus on ensuring that the Corporation was striking the right balance between its public-policy mandate, and its objective of operating on sound commercial principles. While the Board had set a very aggressive business plan for EDC, it had also confirmed its leadership role in setting high standards of corporate responsibility, particularly with respect to the environment. In March, the Board approved an *Environmental Review Framework,* formalizing and strengthening EDC's existing environmental review practices for projects it supports, and clearly articulating its guidelines and philosophy in this field, which the Board encouraged EDC to promote internationally as a model for other export credit agencies.

Communications: Acknowledging the importance of enhancing communications with EDC's various stakeholders, the Business Development Committee oversaw the creation of a new identity for the Corporation, in anticipation of a proposed amendment to EDC's enabling legislation to change its name; as well as diverse collateral materials targeting Canadian exporters and Members of Parliament. It also encouraged and supported the creation of an Education and Youth Employment Strategy to promote international business knowledge and trade-related career opportunities to students across Canada.

Working with Management

Recognizing the need for the Board to work closely with management, while maintaining its independence and, enhanced by a clear allocation of responsibilities between the two groups, several initiatives were undertaken. In terms of Board independence: in-camera sessions were held at each meeting of the Board and some meetings of the committees; three of the seven committees were comprised entirely of outside, independent directors; a Pension Committee was established; and mandates for the Audit and Human Resources Committees were revised to include additional responsibilities. In terms of clarifying responsibilities: the new *Credit Risk Policy Manual* clearly articulated delegations of authority to management, as well as comprehensive reporting procedures to the Board; and the review and approval of the President's 1999 objectives further clarified such responsibilities, and provided a base against which to measure his performance.

Functioning of the Board

Acknowledging the critical need to assess Board effectiveness and undertake actions to enhance its corporate governance practices, several initiatives were undertaken, including: the aforementioned 1999 corporate governance survey and resulting action plan; the creation and approval of a skills profile for EDC directors, outlining qualities and experiences to help identify individuals with the greatest potential to contribute value to the Corporation's overall performance; special information sessions on credit risk management practices and corporate governance practices; the update and revision of comprehensive documentation sent to all new members of the Board upon their appointment; and signed statements of compliance with EDC's *Code of Conduct*, and updated declarations of interests by all members of the Board.

While strident steps have been taken by EDC's Board of Directors in its continuing efforts to evolve its corporate governance practices beyond mere compliance with the Treasury Board Guidelines, there is more that can be done. In taking the next leap, in December 1999, the Corporate Governance Committee decided to engage the services of an outside, independent consultant to conduct the year 2000 survey, determining that it will involve individualized interviews with directors, codifying progress made to date with respect to the Treasury Board Guidelines, benchmarking EDC's practices against peer organizations, and establishing a course of action to address any significant gaps. Directors are also being requested to provide self-assessments of their skills and experience, in order to create a Board inventory for use in identifying gaps to be filled when vacancies on the Board arise.

EDC's Board of Directors believes that it is only through this process of critical review and self-assessment that its corporate governance practices will become "best in class," and the Board will remain effective and fully accountable.

Committees of the Board of Directors

The Audit Committee assists the Board in fulfilling its responsibilities in relation to: financial reporting and performance measurement; internal control systems; the safeguarding of assets of the Corporation and the management of its resources; corporate financing and treasury management; internal and external audits; EDC's *Code of Business Ethics* and *Code of Conduct;* and its *Environmental Review Framework*. Areas of particular focus in 1999 included the Special Examination of EDC by the Auditor General, Year 2000 readiness, and the establishment of Guidelines on EDC's Capital and Administrative Expenditures and Budgets. In 1999, the Committee held four meetings.

Members: J.A. Pattillo (Chair), W.R.C. Blundell, R.A. Fung, R.J. Holt and G.S. White.

The Business Development Committee assists the Board by providing policy direction to enhance EDC's ability to meet the evolving needs of the market, taking into account factors related to industrial sector and/or regional economy. Areas of particular focus in 1999 included: sectoral marketing plans; regional representation; a new corporate identity; development of an Education and Youth Employment Strategy; work towards the development of an E–Commerce Strategy; and consideration of recommendations arising from the *Report on the Review of the Export Development Act*. In 1999, the Committee held six meetings.

Members: R.D. Doucett (Chair), D.E. Byrne, R.A. Fung, P. MacDonald and G.S. White.

The Corporate Governance Committee is responsible for, and makes recommendations to the Board on, matters relating to EDC's corporate governance regime, including the development and implementation of methods to ensure effective Board performance; and the determination of the structure, responsibility and composition of the various committees of the Board. Areas of particular focus in 1999 included a directors' survey, a review of EDC's corporate governance practices vis-à-vis the Treasury Board Guidelines, creation of a skills profile for EDC directors, terms of reference for the newly established Pension Committee, and revised terms of reference for the Audit and the Human Resources Committees. In 1999, the Committee held six meetings.

Members: P.J. Lavelle (Chair), D.E. Byrne, R.D. Doucett, J.A. Pattillo and R.C. Setlakwe.

The Executive Committee has the authority to exercise all the powers of the Board with the exception of: declaring dividends; approving any corporate plan, budget, financial statement or report required by any statute or under EDC's By-Law; and making, amending or repealing EDC's By-Law. This Committee is intended to meet to handle only those urgent matters which may arise between meetings of the Board. In 1999, the Committee held eight meetings.

Members: P.J. Lavelle (Chair), W.R.C. Blundell, A.I. Gillespie, J.A. Pattillo and R.G. Wright.

The Human Resources Committee assists the Board by: reviewing and making recommendations to the Board on EDC's Human Resources strategic plan, succession plans for executive officers, and compensation policy; approving, on the recommendation of the President, the annual budget for both base pay and variable pay, and the annual cash compensation paid to senior executives; and working with the Pension Committee in making recommendations to the Board regarding the design of a proposed pension plan for EDC employees, and any changes to pension benefits that may be made after the establishment of the plan. Areas of particular focus in 1999 included: a review of the President's performance against objectives; compensation for senior executives; leadership training; work towards the establishment of an EDC pension plan; and approval of EDC's compensation plan for 2000. In 1999, the Committee held five regular meetings, and one joint meeting with the Pension Committee.

Members: W.R.C. Blundell (Chair), A.I. Gillespie, R.J. Holt, P.J. Lavelle, P. MacDonald and R.G. Wright.

The Pension Committee assists the Board with respect to the establishment of a proposed pension plan for EDC employees, and thereafter will have ongoing responsibilities with regard to the plan including ensuring: the plan is administered and funded in accordance with applicable legislation and the documents filed with appropriate authorities; all activities of the plan are monitored on an ongoing basis; and any changes to the design of, and benefits under, the plan are made in accordance with the established terms of reference of the Committee. As the Committee was established in October 1999, areas of particular focus have included the development of its terms of reference, and together with the Human Resources Committee, finalizing the initial design for the pension plan. In 1999, the Committee held one regular meeting and one joint meeting with the Human Resources Committee.

Members: D.E. Byrne (Chair), A.I. Gillespie, R.J. Holt, P.J. Lavelle and R.C. Setlakwe.

The Risk Management Committee assists the Board in fulfilling its responsibilities with respect to the management of direct and contingent credit exposures undertaken by the Corporation in the conduct of its business activities, including establishing and updating, as required, an effective and flexible regime governing the authorizations required by the Corporation to undertake such activities. In 1999, the Committee held eight meetings, plus three information sessions for other members of the Board, culminating in the approval of a new *Credit Risk Policy Manual* at the December 1999 meeting of the Board.

Members: P. MacDonald (Chair), A.I. Gillespie, R.J. Holt, P.J. Lavelle and J.A. Pattillo.

All committees are required to report to the Board of Directors on their activities on a regular and timely basis.

The remuneration of directors falls under the authority of the Governor General in Council. The Chairman of the Board is paid an annual fee of $6,500 and a per diem of $375, and the other private-sector directors are paid an annual fee of $4,500 and a per diem of $375. In addition, private-sector directors, other than the Chairman of the Board, receive annual fees of $1,000 when they hold office as Vice-Chairman of the Board or Chair of a committee of the Board. Public-service directors are not paid for their services as directors.

The total aggregate remuneration paid in 1999 to EDC's 11 private-sector directors was $212,500. They served, on average, on three committees of the Board, and attended a total of 48 Board and committee meetings.

Commitment to legal and ethical conduct EDC will conduct its business and affairs in accordance with the letter and spirit of all applicable laws in the countries in which it does business. If any EDC employee or representative is ever uncertain as to the interpretation or application of a particular law, he or she must seek advice from Legal Services before taking action. Compliance with the law may, however, fall short of the standard of ethical conduct expected by EDC.

Accordingly, it is EDC's policy that each of its directors, employees and representatives conduct EDC's business with honesty, integrity and fairness. It is also corporate policy that communication and relationships with stakeholders be truthful and transparent in a way that will withstand the highest degree of public scrutiny. Working relationships will be based on candor and openness, treating each other fairly and with respect, while acting with integrity, and weighing responsibilities to all stakeholders.

The environment In considering transactions, EDC examines environmental risk along with any other risk. EDC has developed its own *Environmental Review Framework* in consultation with Canadian exporters, environmental organizations and other stakeholders. The framework supports EDC's desire to conserve and enhance environmental quality and to advocate concern for the environmental impact of projects it supports in foreign jurisdictions. EDC will encourage best practices among those with whom it does business, with the aim of raising international environmental standards. EDC will strive for high standards of environmental conservation, while ensuring this does not unduly hinder EDC's ability to support Canadian exporters competing on a global scale.

Prohibitions against bribery and corruption Basic criminal statutes of virtually all countries prohibit extortion and bribery. Under no circumstances will EDC, directly or indirectly, knowingly offer or give a bribe. Further, EDC will not support a transaction that involves the offer or giving of a bribe, and will exercise reasonable diligence and care not to unknowingly support such a transaction.

Human rights EDC values human rights and promotes the protection of internationally recognized human rights, consistent with the policies of the Government of Canada. EDC recognizes the sovereignty of other national governments with respect to human rights and conducts business with them where doing so is consistent with the policies of the Government of Canada.

EDC employees, representatives and other stakeholders are entitled to have their dignity as human beings respected and to work in an environment free from intimidation, hostility or offensiveness. EDC is therefore committed to creating and maintaining a work and business environment that is free from harassment and discrimination on prohibited grounds. These prohibited grounds include: age, race, colour, religion, creed, sex, nationality, ethnic or place of origin, citizenship, language, political belief, marital or family status, pregnancy, sexual orientation and disability.

Avoiding conflicts of interest Employees and representatives of EDC have a duty to act in the best interests of EDC at all times. A conflict of interest arises when an employee must choose between EDC's best interests and his/her own. The judgment of EDC employees and representatives must be, and must be seen to be, independent of any personal or financial interests that arise from business dealings, social ties, or other personal considerations.

EDC has adopted a *Code of Conduct* that requires employees and representatives of EDC to adhere to the highest standards of conduct with respect to conflicts of interest. Compliance with these standards is achieved through avoidance, disclosure, discontinuance or divestment.

Maintaining confidentiality of information EDC will respect the privacy rights of its stakeholders, including their right to security of information. EDC will preserve confidential information in its possession, and use such information only for corporate purposes.

Some employees have access to sensitive or confidential information that, if released, could significantly harm EDC, its employees or other stakeholders. Therefore, employees and other representatives of EDC must use extreme care when handling such information. As a general rule, such information shall not be provided to EDC employees or representatives other than on a need-to-know basis or to anyone outside EDC who is not authorized or legally entitled to receive it.

EDC's *Code of Conduct* provides examples of confidential information and contains stringent rules regarding the disclosure, use and communication of such information.

Basis Point – One-one hundredth of a percentage point.

Contingent Liability – Potential debt which may become an actual financial obligation if certain events occur or fail to occur. Contingent liability is also referred to as insurance policies and guarantees outstanding.

Credit Risk – Credit risk is the possibility that a loss may be incurred if a counterparty fails to meet its financial commitments.

Efficiency Ratio – Administrative expenses expressed as a percentage of operating income.

Financial Sustainability Ratio – Adjusted operating income (operating income net of administrative expenses and debt relief) as a percentage of the year's average capital and allowances.

Foreign Exchange Risk – Foreign exchange risk is the possibility that a loss may result from exchange rate movements.

Gross Loans Receivable – Principal amounts outstanding, including any non-accrued capitalized interest, under existing loan agreements.

Hedge – A risk management practice used to manage interest rate or foreign exchange exposures arising from the normal course of business operations.

Impaired Loan – Loans that no longer have reasonable assurance of collection of interest and principal.

Interest Rate Risk – Interest rate risk is the potential impact on the Corporation due to changes in interest rates.

LIBOR - London Inter-Bank Offered Rate – The interest rate at which banks in London are prepared to lend funds to first class banks.

Liquidity Risk – Liquidity risk is the chance that funds will not be available to meet the Corporation's obligations.

Market Risk – Market risk is the likelihood of a loss to the Corporation as a result of possible movements in interest and foreign exchange risk.

Net Interest Income – The difference between the interest earned on assets and interest expense on borrowings.

Net Margin – Net interest income expressed as a percentage of average assets employed.

Net Operating Income – Operating income net of administrative expenses.

Off-Balance Sheet Financial Instrument – An asset or liability that is not recorded on the balance sheet, but has the potential to impact cash flows in the future if a contingent event occurs.

Operating Income – Net income excluding the provision for credit losses and administrative expenses.

Operational Risk – Operational risk is the potential loss that may result from human error, internal control weaknesses and systems deficiencies.

Return on Equity – Net income expressed as a percentage of shareholder's equity.

Undisbursed Loan Commitments – A contractual amount under an existing loan agreement that has yet to be advanced to the borrower.

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Global Trade Leader

** Scheduled to open in April 2000*